Financial and Economic Factors in Foreign Policy: The Italian Example

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Twenty-five years ago I was lucky enough to be able to attend the seminars held at the Sorbonne by the incomparable Pierre Renouvin and his colleague Jean Baptiste Duroselle on the subject of 'The Study of the Factors of International Relations in the XIXth and XXth Centuries'. For me this was a great and unrepeatable experience. After studying political and civil history with Chabod and Salvatorelli I had spend three years at the *Institute of Historical Research* in London, where I followed the seminars of Professor Norton W. Medlicott. These had given me an excellent grounding in the empirical approach to historical problems. Each of us was expected to present the findings of our own research, to propose solutions, express doubts and alternative hypotheses. Discussion followed, and then Medlicott would put forward his own conclusions, although these never put a definitive close to a debate but rather sought to indicate where new research was needed.

Renouvin's method was completely different. His lectures were of the highest quality, but were imbued with Cartesian logic that moved smoothly from premise to conclusion, leaving virtually no space for discussion. Although the substantial part of the lectures was subsequently published in the famous volume that bears the names of Renouvin and Duroselle [1], I still have the detailed notes that I took at the time which include much that did not appear in the volume, and in particular the comments and reflections on what had been said in the lectures.

In this paper I wish to refer in particular to the marvellous lectures that Renouvin gave on the question of the influence of economic and financial factors on foreign policy, which were delivered in the autumn of 1959-60. The influence of economics on foreign policy had previously been discussed by Marc Bloch and Lucien Febvre in France and by Croce and Labriola in Italy, but renewed debate was at that time in full swing. Many young historians saw Marxist-Leninist theories as a key that would unlock all historical secrets. Although this soon proved to be an illusion, it did have many positive consequences both in the sense that it established new historical problems and provided historians with a

[1] P. Renouvin & J-P. Duroselle, *Introduction à l'Histoire des Relations Internationales*, Paris 1964.

number of new forms of structural analysis. But this was not an illusion that Renouvin and Duroselle had ever shared, as is more than evident from their writings, although Renouvin devoted far more space to the question of the influence of economic factors in foreign policy than any of his predecessors.

In general terms, there can be no doubt that a relationship between the two has always been accepted. Nearly two thousand years ago Petronius gave the character Trimalcione in his *Satyricon* the lines: *Pecunia regina mundi.* Machiavelli in turn drew attention to the role of banks and bankers, and there can be no doubt that the bankers of Renaissance Tuscany, Lombardy and Liguria were influential figures who were frequently able to determine the outcome of the struggles between the small city-states of the time by their decisions to advance money to one and not another which enabled one state to pay its soldiers while at the same time preventing another from doing so.

It was only during the last century, however, that economic and financial considerations began to assume a fundamental importance in the policies of individual states, following the advent of industrialization and the need to find new markets and raw materials. Renouvin made a 'systematic study' of these questions, and concluded that economics should be numbered amongst the 'underlying forces' that shaped international relations, in combination with geography, military capability, psychology, demography, etc.

The beginning of an 'international banking system' can be dated from the crisis of 1873, which saw the United States enter onto the world stage for the first time. Since all currencies were at that time convertible and negotiable, capital tended to flow wherever interest rates were highest. The internationalization of financial investments was a process that proved irreversible, and this necessarily affected the foreign policy of a state in direct and indirect ways. It became impossible to ignore the activities of financial institutions either at home or abroad, with the result that "the geography of the finance markets, and that of the banks that sustained them, became increasingly identified with the geography of international relations."

But in what circumstances did foreign policy seek to make financial affairs its instrument? How can we establish that a certain development in foreign affairs was determined by financial considerations rather than vice-versa? Separating the boundaries of cause and effect is in this case as difficult as distinguishing economics from politics.

Renouvin argued that there were no universal norms and no single interpretation: each case should be studied on its own merits. "Historical research — he concluded — can only provide useful results if we abandon the vain hope of finding general explanations and seek instead to concentrate on the particular. It is only through such research that we shall come to understand better the behaviour of human beings. But it will always be an error to believe that such research can lead us to discover universal laws" [2].

[2] *Ibid.* p. 169.

Such case studies are certainly extremely enlightening when it comes to explaining the foreign policies of countries like the United States, France, Great Britain and, later, Germany and Japan that were also major financial powers, and in these cases the interaction between finance and diplomacy is most easily discerned. Foreign investments, the granting of credits to foreign states or the admission of foreign loans on the stock-exchanges of Paris, London or New York were operations in which economic objectives and political aims were closely inter-related. This was well reflected in something that historians have in my view tended to under-value: the fact that financiers, bankers and diplomats were all part of the same social *milieu*, knew one another well, spent time in one another's company and exchanged views with one another.

This inter-relationship was particularly evident in the so-called 'dollar diplomacy' in Latin America and in the mobilization of financial investment to support colonial expansion (an argument that is reinforced by the fact that historians are now generally agreed that colonies weighed on the economies of the metropolitan powers rather than support them), as well as in the development of heavy industry in the period prior to both the World Wars.

The Italian case is of particular interest in this context, since Italy was a middle-ranking power with relatively weak financial capacity which was forced by circumstances to keep pace with the major powers. Thanks to gradual expansion of access to public archives as well as to those of the major financial institutions, the archives of the leading banks and major banking figures are now accessible to scholars as well as those of the Foreign Ministry and other government offices. But it is not only the availability of the sources that makes Italy a particularly interesting example of the relations between economic influences and foreign policy.

To date, the greater part of the archival sources that are available still remain largely unstudied. All that is required is a degree of patience, for example, to quantify the extent of the financial support which France gave the new Italian state in the years after Unification. The same documents also provide the means for reconstructing the events that followed the rivalry between Italy and France over Tunisia, and reveal how Paris took the decision to occupy the latter under pressure from financial interests that had invested heavily in the region. On the other hand, they also show that economic considerations played a very small role in Italy's resentment against France over Tunisia; it was not so much Italy's economic interests as its prestige and *amour-propre* — sentiments of particular importance for a newly formed state — that were wounded and which gave rise to reactions that were in many respects quite disproportionate.

Federico Chabod perceptively described the nature of Italy's economic backwardness, or at least of the gap that existed in terms of economics at the time of Unification when he wrote that:

> "...the contrast between the youthfulness of the country's productive and technical condition and the antiquity of its culture was quickly perceived, as was the backwardness of many of its regions in comparison with levels of

development achieved elsewhere on the peninsula; but Italians were also soon to become aware of the disparity of wealth and resources that separated them not only from the older and more established states like Britain and France, but also from the more recently formed German Empire" [3].

The success of Quintino Sella's policies as Finance Minister meant that by 1871 the number of joint-stock companies had risen to 477, with a combined capital of 1,722 million lire. But the comparative figures for Britain, France and Germany were at least three times higher. The same was true for savings, and this together with the persisting public sector deficit meant that the foreign exchange rates for the lire were always unfavourable.

One has only to look closely at the Milan Exhibition of 1881, in which all the country's advances in industries that ranged from engineering to chemicals were displayed, to be aware that Italy, in the words of Ernesto Decleva, "still continued to be a country that lived predominantly from agriculture and from products that derived from agriculture". Yet the Milanese Exhibition did also show that there were real and irrepressible signs of new industrial expansion: "The Milanese industrial interests put forward two responses to the challenges that confronted them: on one hand, a calculated form of protectionism and on the other the expansion of science and technology and the strengthening of professional training in general" [4].

Such arguments have been reinforced by the findings of Pierre Milza's researches, and he has shown how the start of the tariff war between Italy and France was rooted in the shift from free-trade to protectionism in both countries. In the years after Unification, Italy had entered into free-trade agreements with France, Great Britain, and Austria-Hungary, but these had proved damaging for the country's economy and especially for the South which was unable to match foreign competition. As a result, the trade agreement of 1882 with France was criticized even by someone like Luigi Luzzatti, who was a noted Francophile as well as a leading economist and a respected academic, on the grounds that it did not offer sufficient protection to Northern Italy's nascent industries. Nonetheless the new treaty was ratified.

Even though there were political factors that contributed to the outbreak of the tariff war between Italy and France, in particular Italian resentment of the French settlement in Tunisia and French resentment of Italy's membership of the Triple Alliance and policies on the Roman Question, there can be no question that the principal motives were economic. On both sides of the Alps the trade war was the result of the pressure exerted by new protectionist

[3] F. Chabod, *Storia della politica estera italiana dal 1870 al 1896* Vol. 1, *Le Premesse* Bari 1951, pp. 486 ff. See also R. Romeo, *Breve Storia della Grande Industria in Italia* Bologna 1972; Epicarmo Corbino, *Annali dell'Economia Italiana*, Naples 1931-8, Vols 2 & 3; G. Are, *Il Problema dello sviluppo industriale nell'Età della Destra*, Pisa, 1965.

[4] Enrico Decleva, 'Milano Industriale e l'Esposizione del 1881', Introduction to the reprint of *L'Italia Industriale del 1881*, Milano 1984.

interests, whose influence grew out of the deepening economic crisis. In the French case, many of the protectionist forces, like the landed aristocracy for example, also had close ties with Catholic political circles that were already fiercely anti-Italian.

Pierre Milza is in my view absolutely right to question whether it was Crispi's visit to Friedrichruh and his meeting with Bismarck that caused the negotiations on the renewal of the agreement in Paris to collapse. In Milza's view: "The preliminary discussions during the autumn of 1887 were strictly technical, and their failure must therefore be seen as the conclusion of a development that had been prepared for months, if not years, and had in both countries become almost irrepressible because of the influence exerted by interests that favoured protectionism" [5].

It might be argued that this was a case in which economic and political nationalism overlapped, but I would argue that there was no cause and effect relationship between the two. When the negotiations on the trade agreement were broken off a few months later in 1888 and the tariff war between the two countries began, this was the result of economic not political factors. Economics not politics were always the determining factors in this case, and this has considerable importance.

The French claim that it was using 'financial war' to force Italy to abandon the Triple Alliance was not entirely wrong either. Italy suffered enormous economic damage, which contributed to the Sicilian insurrection of 1893-4 and the growing tensions throughout the industrial cities of the North. Indeed, Italy was able to survive perhaps only because of the weaknesses of its economy, which meant that the country was well used to facing difficult conditions. But no less important was Bismarck's decision to meet Crispi's appeals for aid by setting up a trust of German Banks to come to Italy's assistance, and thereby subordinate economics to politics [6].

The priority of politics over economics was again evident in 1929 when Mussolini fixed the Lira at 'Quota Novanta', causing massive economic damage and only minor political gains at home. Did not De Gaulle also always insist that politics were far more important than economics, and prove unexpectedly successful in demonstrating this? This suggests that historians have often failed to give sufficient importance to the role of public 'credibility' in regard to specific events or policy decisions.

Relations between Italy and France offer two important examples of this. The first was the new tariff agreement of 1898 between the two countries which brought the trade war to an end and marked the beginning of a new phase of

[5] PIERRE MILZA, 'Les origines de la guerre douaniére franco-italienne de 1888-1898' in *Relationes Internationales* 1978,pp 235-254. For a more general treatment see the same author's *Francais et Italiens à la Fin du XIXe siécle* Rome 1981, 2 vols.

[6] SEE R.POIDEVIN, *Les Relationes Economiques et Financéres entre la France et l'Allemagne de 1898 à 1914*, Paris, 1969.

commercial expansion. The agreement was only possible because of the 'change of course' that Emilio Visconti Venosta had set for 'the ship of Italian foreign policy' from the time of the Tunisian negotiations of 1896, which had resulted in Italy's recognition of the French protectorate in Tunisia in return for the concession of favourable conditions for the Italians resident in the colony [7].

It should be emphasized that in this case economic cooperation was the result of a political agreement, and not viceversa. Much the same happened four years later in the famous Prinetti-Barrére agreement, by which in return for freedom of manoeuvre in Cyrenaica and Tripolitana Italy guaranteed its neutrality in the case of war between France and Germany should Germany be the aggressor. Delcassé also opened French financial markets to the Italians, and as Pierre Milza has shown the quotation of Italian stock on the French money market provided Italy with a flow of foreign exchange that it greatly needed. But there is no evidence that these considerations were foremost, and Prinetti's policies were determined in general by more pressing political concerns [8].

The gradual recovery of Italy's economic and financial position enabled Giolitti to reorganize the country's banking system. In 1893 the Bank of Italy had come into being, and its archives are now open to historians, while there are also plans to publish a collection of the most important papers [9]. With encouragement from Crispi, the *Banca Commerciale Italiana* was founded in 1894, mainly with German capital, and thereafter played a major role in the industrial expansion of Northern Italy. Its archives have also recently been reorganized and are now also open to historians.

The histories of two other major banks that survived the reforms of 1983, the Bank of Naples and the Bank of Rome, have recently been reconstructed by a leading economic historian, who has been permitted to draw on the Banks' own archives as well as other sources. The inspiration for these projects has come mainly from Luigi de Rosa, of the University of Naples, who has for many years edited this *Journal of European Economic History*, and he has succeeded in setting the Banks' history in a broad international context through extensive research in the archives of the countries most directly involved in Italy's economic history in this period, as well as in those of the banks in question [10].

[7] E. Serra *La Questione Tunisina da Crispi a Rudinì ed il "Colpo di Timone" alla Politica Estera Italiana*, Milan, 1967 (with preface by Luigi Salvatorelli), p. 450; Id *C. Barrére e l'Intesa Italo-Francese*, Milan 1950, pp. 67ff.

[8] Pierre Milza, 'L'Imperialisme italien à l'éprevue des difficultés internes: les années de recuelliment (1896-1900)', in *L'Historien et les Relations Internationales.* Recueil d'études en hommage de Jacques Fraymond, Geneva 1981; Id *Francais et Italiens à la Fin du XIXe Siécle* cit, pp. 936ff.

[9] Banca d'Italia *'Studi e Ricerche* Vol. 3 *Storia del Capitale della Banca d'Italia e degli Istituti Predecessori'*, Rome 1977; Eligio Vitale *La Riforma degli Istituti di Emissione e gli Scandali Bancari in Italia 1892-1896* Rome 1972.

[10] Luigi de Rosa, *Il Banco di Napoli nella Vita Economica Nazionale (1863-1883)*

The history of a bank is almost inevitably part of the history of international relations, and the Bank of Rome provides an excellent example of this. The Bank was frequently engaged in what is termed 'parallel diplomacy' which at certain times had important repercussions on international relations, as was apparent — in a different context — in the case of the 'dollar diplomacy' which we mentioned earlier. The Bank of Rome came into being in 1880 'in the shadow of the Vatican' through the initiative of a group of Roman noblemen. Within thirty years of its foundation the Bank had become very active abroad, especially in Africa and in particular in Libya, Egypt and the Turkish Empire, notwithstanding the problems of operating in these territories, owing to the strength of the Turkish authorities who were hostile to any attempts at political infiltration.

The Bank's aim was 'peaceful penetration', however, and its strategies were shaped by Ernesto Pacelli (a relative of the future Pope Pius XII) who was chairman from 1903 to 1915, by the vicechairman Romolo Tittoni (the brother of Tommaso Romolo who was Foreign Minister at various times and also Italian ambassador at Paris), and by Enrico Jacomoni who acted as executive director between 1901 and 1912.

The Bank's overseas activities retained a strong Catholic imprint, which is easily understandable since the growing rift with France meant that the Vatican needed to find a new protector for Catholic interests in the Mediterranean and the Near East. But these were not the only reasons, and the bank archives together with other sources (for example, the recently available papers of the financier Bernadino Nogara who had very close contacts with the *Banca Commerciale Italiana* and was also the leading figure in the *Società Commerciale d'Oriente*) can tell us a great deal about the highly secret relations between the banks and the Italian government.

It is clear that the Italian foreign ministry, especially when Tittoni was Minister, gave its support to the activities of the Bank of Rome - although this support was generally inadequate and ineffective. The contacts between the Bank and the government had begun in a fairly fortuitous manner when shortly after its foundation it began financing in 1884 the *Società Commerciale per i Traffici in Africa Orientale* that had been set up on the island of Zanzibar by an Italian merchant sea captain named Vincenzo Filonardi [11]. Filonardi had been appointed consul by the Sultan of Zanzibar, and when the latter began to extend his sovereignty along the African coast the commercial activities of Filonardi's company also expanded. Commercial expansion was transformed into political expansion when in 1887 Crispi tried to use the company as a means to increase Italy's influence in the region. Filonardi willingly collaborated in this enterprise, even though the more overtly 'political' dimensions of his activities aroused the hostility of the Sultan, created serious commercial problems and strained rela-

Naples 1964; Idem *Storia del Banco di Roma*, Vol. 1 *Dalle Origini al 1911* Rome 1982, Vol. 2 *Dal 1911 al 1928* Rome 1983.

[11] G. Finazzo, *L'Italia nel Benadir. L'Azione di Vincenzo Filonardi*, Rome 1966.

tions between the company and the Bank of Rome. In the end, Italy did not succeed in its objective of obtaining the port of Chisimaio, although it was granted a protectorate over the territories north of the mouth of the Giuba river, including Mogadishu.

In the meantime Filonardi had set up a network of commercial agencies in Harar, making the position of the Bank of Rome even more exposed. In return Crispi publicly acknowledged as prime minister in 1890 that the Filonardi Company (and by implication, therefore, also the Bank of Rome) had rendered the government 'important services'. In a private letter Crispi went even further and stated that : "The Company has cooperated with the greatest of effect to make the name of Italy respected amongst the peoples of the East African coast; on every occasion it has used all its resources to assist the actions of the government and has played no small part in bringing these to successful fruition" [12].

This is an important illustration of the effectiveness of the process of 'parallel diplomacy' to which we referred above. But the affair did not rest there. In 1893 Filonardi signed a contract with the Italian foreign ministry by which he undertook the administration of Benadir for a period of three years, with the object of "engaging in promoting and developing trade, industry and farming, as well as furthering the emigration of Italian settlers to those African territories that are subject to Italian influence".

This was easier said than done, however, and both Filonardi and the Bank of Rome were soon aware that the subsidy of 300,000 lire advanced by the government was inadequate even to pay the wages of the native troops who were recruited to patrol the protectorate's 200 mile coast-line. This was one reason why the Somalis quickly became hostile to the foreigners. But although the government refused to increase its contribution, the favourable commercial situation enabled Filonardi and the Bank to meet the costs.

The start of the Bank's overseas operations had in this sense been accidental, but they were never abandoned. As a result of pressure from 'many influential persons', the Bank's chairman, Pacelli, authorized the opening of a new headquarters at Alexandria in Egypt in the middle of 1904. Amongst those who had pressed for this was the Italian diplomat Giuseppe Salvago Raggi. Genoese by origin, he had arrived in Cairo after an adventurous time in China where the Boxer rebellion had occurred during his spell of duty. But Egypt offered great promise, since there were already some 40,000 Italians resident in the country who formed a particularly lively and entrepreneurial community. After the Bank's agency at Alexandria had been opened another branch was soon established at Cairo[13].

But the Bank of Rome's ambitions were not limited to Egypt. Like the *Banca Commerciale Italiana* and the *Credito Italiano*, it also took part in setting up the

[12] *Ibid*, p. 220.

[13] L. De Rosa, *Storia del Banco di Roma* Vol. 1, cit, pp. 173 ff.

Bank of Abyssinia and the Bank of Morocco in these years. In response to requests from the Bank of Italy, the Bank of Rome also helped finance the Massaua-Asmara railway and other important communication projects in the Eritrea colony. The Bank also opened an agency at Malta where there was a large Italian community and where the Bank could count on the strong support of the island's strongly 'papal' clergy.

Thanks to its close contacts with the Vatican, the Bank of Rome had now established its position as *the* Catholic bank. The contacts were not only financial but also political, as is clearly shown by the rich documentation in French and Italian relating to the Bank's request in 1905 for permission to quote its stock on the Paris Exchange, since this was one of the world's principal money markets. The French ambassador, Barrère, examined the request very closely and initially opposed it, on the grounds that it would have prevented the French authorities "exercising the control which should on no account be surrendered" [14], and also because the Bank's declared objective was to acquire at least a share in the savings of Catholic institutions and put them to more profitable use.

Barrère even described Pacelli, the Bank's Chairman, as an 'agent of the Vatican'. But after a meeting with Pacelli and after the latter promised to give him whatever support he required with the Vatican, Barrère withdrew his opposition. As a result, the shares of the Bank of Rome were quoted on the Paris Bourse alongside those of the *Banca Commerciale Italiana* and the *Credito Italiano*, and attracted a considerable amount of French capital.

Gradually, and despite the famous scandals that had involved both Crispi and Giolitti, Italy managed to put its banking and finance houses in order. The excellent study by Webster, which draws extensively on the archives of the Bank of Italy and the *Banca Commerciale*, clearly demonstrates the importance of this renaissance of the Italian economy by the close of the Giolittian era, although he also underlines the constraints that were imposed on Italy's often ambitious commercial enterprises by the persistence of social structures that were still predominantly agrarian and provincial [15].

It must said, however, that Webster's conclusion that "Italian imperialism began long before the fascist dictatorship" is somewhat puzzling, unless imperialism is taken to mean the process of overseas commercial expansion that was common to Britain, France and Germany in the decades around the turn of the century. It must also be clear that Italy's new heavy industries, that were concentrated within the famous Milan-Turin-Genoa triangle, were of necessity expansionist because of the very narrow capacity of the domestic market. Then

[14] On Barrere's complex personality see E. Serra, *C. Barrère e l'Intesa Italo-Francese* cit.

[15] Richard A. Webster, *L'Imperialismo Industriale Italiano; Studio sul Prefascismo 1908-1915*, Turin 1974.

as now, the need to export was an over-riding priority for a country that was relatively poor in primary materials and natural resources.

The drive for exports was not channeled in any single direction but was part of a permanent search for markets where Italian products and capital were not exposed to competition from stronger rivals, which included virtually all the European countries and the United States. Eventually this meant that Italy concentrated on the Mediterranean region, North Africa, Turkey, East Africa and, although to a much lesser extent, the Balkans.

Many of the incentives that lay behind this search for expansion re-occurred in the fascist period, and the idea that it was important to make sacrifices for the sake of 'national prestige' was typical of a country with deep-rooted cultural traditions yet very recent political unity. But this was not a cause of fascism, and such considerations would have remained present even had Italy remained a democratic state. As we shall argue, the fascists sought to turn such arguments to their own ends.

Before the 1914-18 war, Italy's overseas economic expansion was mainly peaceful, and even where there were close links between the banks and diplomacy the means employed were generally quite inadequate to match political ambitions. However, the opening of the historical archives of the leading Italian banks has made it possible to identify these activities much more precisely. The history of the Bank of Rome, since it was the first Italian bank to undertake overseas operations on an important scale, provides an important insight into the nature of this process of peaceful penetration as well as illustrating the nature of the relations between the banks and Italian government.

It was the government, for example, that in 1911 tried to persuade Pacelli to open a new agency in Jerusalem "in order to provide more effective support for the influence and energy of Italy in the Orient". The Bank of Rome agreed, and took over the banking operations of the *Società Commerciale di Oriente* which had been formed by a consortium that included the *Banca Commerciale Italiana*, and was directed by a major figure in Italian financial circles, Giuseppe Volpi, and managed by another important personality, Bernardino Nogara whose papers have, as we have mentioned, recently become available to historians [16].

Italian financial interests, as well as the Catholic press, were also particularly interested in Tripolitania and Cyrenaica, especially after the agreement with France and the other Powers that gave Italy a 'free hand' in these regions. But when Prinetti failed to obtain the consent of the Turkish authorities to the establishment of an Italian protectorate comparable to the British protectorate in Cyprus, it became essential to press ahead with peaceful penetration in order

[16] A. TAMBORRA, 'The Rise of Italian Industry and the Balkans' in *Journal of European Economic History* 1974, n. 1. The Nogara papers are in the possession of his nephew, Bernardino Osio, in Rome.

to prevent what was described as the danger of an 'invasion' of British and French capital.

However, these regions had very little economic importance for Italy. There were scarcely six hundred Italians in Tripolitania, and a tenth of these were monks, while trade was virtually non-existent. On the other hand there were compelling strategic incentives as well as questions of prestige. For this reason the Foreign Minister Tommaso Tittoni, brother of the vice-chairman of the Bank of Rome, told the Senate in 1905 of the measures he had taken to attract Italian capital to the region "in order to promote trade, and industrial and agricultural enterprises". Tittoni was Foreign Minister on three occasions between 1903 and 1906 (and again in Nitti's administration in 1919), and his projects were not without influence or importance.

This was also the reason why the Bank of Rome's agencies in Tripolitania and Cyrenaica were always in deficit, or 'in the red' as bankers say. Expenditure far exceeded income, partly as a result of a series of over-ambitious investments in agricultural, mining and shipping projects which although often showing admirable intentions proved to yield less than was hoped - and in many cases nothing at all. The Bank's agencies in Egypt and Costantinople were also direct victims of Turkish hostility.

Nonetheless, the Bank of Rome's programme of 'peaceful penetration' did help establish a network of infrastructures, especially in the field of communications, as well as a climate that kept certain British and German aspirations at bay and laid the basis for Italy's later military occupation of the region.

At this point one must ask whether, as Luigi De Rosa has put it, the Bank of Rome had become excessively committed to 'peaceful penetration', or whether it was guilty of "dangerously speculative activities and in general of an amateurish approach to industrial investment" as others have claimed. A consequence of this was that it was widely believed in Libya and Turkey, but also elsewhere, that the Bank of Rome was "an institution that had been created and subsidized by the Italian government to prepare for the occupation of Tripolitania and not just to undertake banking operations". In fact there was no truth in this, any more than there was in the claim that the invasion of Libya took place to protect the interests of the Bank of Rome.

The Libyan War in fact caused the Bank of Rome's offices in North Africa and in Constantinople huge losses as a result of physical destruction, pillage, confiscation of assets and boycott that amounted to 20 million lire, or a tenth of its capital. The Bank's attempts to ensure that the Turks were obliged to pay reparations by the terms of the peace treaty were fruitless, as were efforts to obtain compensation from the Italian government.

What the British called the 'intrigues' of the Bank of Rome continued in Egypt, where discussion took place with the Khedival administration in an attempt to obtain their assistance in ending the guerrilla war with the Senussi in Cyrenaica in return for Italian support for Egyptian independence. But by now France and Spain were also engaged in the process of 'peaceful penetration' and

the Bank of Rome launched a new programme of expansion in the eastern Mediterranean basin from Constantinople to Cairo as new agencies were established at Smyrna, Jerusalem, Beirut, Damascus, Aleppo, Adana, Rhodes and elsewhere, while the existing offices in Lybia, and Eritrea were maintained. The Bank then began to turn its attention to Latin America as well.

The Bank's more purely political activities were also very important. Its close links with the Holy See were known, and the Bank often received important assistance from the Vatican. In return, the Bank played an important role in financing the new Catholic political party, the Popular Party, founded by Don Sturzo, as well as its publications and other newspapers that were sympathetic to its aims.

If we wish to identify 'counter-proof' of the relationship between economy and finance, on one hand, and foreign policy on the other, then Italy's entry into the First World War provides an excellent case study, thanks in particular to the meticoulous research carried out by Pierre Milza on French diplomatic sources which serve to confirm the interpretations put forward at the time by Luigi Albertini, Giolitti and Nitti[17].

In 1914, the level of trade between Italy and Germany, even leaving out trade with Austria-Hungary was twice as great as with France. In the financial field, the *Banca Commerciale Italiana* was dominated by German interests. In short: "on the eve of the war, Italy was much more closely part of the commercial system of the German Reich than of the Entente powers in general or of France in particular". There was no branch of Italy's economy in which Britain or France were more dominant than Germany or Austria, which meant that any attempt to upset the Triple Alliance must of necessity have provoked a major upheaval of Italy's economy and financial institutions - as indeed occurred. As Pierre Milza has put it: "Had the economic contacts that had been re-established with France since 1896 become sufficient to justify this change of course? Our conclusion must be categorical: they had not."

In other words, in one of the gravest decision taken in the whole of the life of the unified Italian state, which many saw as a further example of the customary 'Machiavellianism of the Italians', all those financial and economic considerations which until that moment had weighed in favour of neutrality were completely over-thrown. The same was to happen again when Italy entered the Second World War, and it is well known that Mussolini paid virtually no attention to the arguments against the war that were put forward by industrial

[17] Pierre Milza, 'Les rapports economiques franco - italiens en 1914-1915 et leurs incidences politiques' in *Revue d'Histoire Moderne et Contemporaine* 1967, n. 1, p. 31; Luigi Albertini, *Le Origini della Guerra del 1914*, Milan 1943, III, pp. 245 ff (one of the principal authors to whom Albertini entrusted the writing of part of this volume was Luciano Magrini, a journalist, scholar and politician of extraordinary talent who gave me many valuable lessons in diplomatic history).

and financial interests, of which the recently published diary of Alberto Pirelli provides clear evidence[18].

The First World War witnessed the rapid expansion of Italy's industrial structure and in particular the heavy industrial sectors, and it was these which were thrown into crisis when hostilities came to an end. New and often imaginative efforts to establish markets in Asia Minor, in the Caucasus and even in Soviet Russia (collaboration with German industrial and financial interests) soon
failed [19]. This had important consequences for the advent of fascism, and provide some limited confirmation of Webster's thesis, although much wider research in the archives of the major Italian industries is required before any firm conclusion can be drawn.

Mussolini was committed, however, to introducing what he described as a 'robust productivism' as a matter of urgency, although probably with little real understanding of the means available. The attempts to achieve this contributed to the crisis of 1929, but were also evident in the creation of the Institute for Industrial Reconstruction (IRI), whose archives are also now open to historians thanks to the IRI's chairman, Professor Romano Prodi of the University of Bologna.

While further work needs to be done, the third volume in the history of the Bank of Rome written by Gabriele De Rosa of the University of Rome already reveals the underlying threads of financial policies in this period[20]. Having got rid of the original Catholic management group, Mussolini looked to the Bank of Rome as "an organ of propulsion and penetration... the advance guard of imperialist expansion" with which he intended to do battle with the British and French banks in Africa and the Near East. But the reality was very different, and from the early '30s the agencies of the Bank of Rome in the Near East, in Turkey, in Syria and in Palestine found themselves in a state of near paralysis.

Relations between the Bank of Rome and the Soviet commercial delegations also changed. The contacts had started before the fascist seizure of power, and the Bank financed very substantial imports of grain, timber, parafin, and silk cocoons from the USSR. But the press began to refer to 'shadowy contacts' and to 'Bolshevik-Catholic intrigues', and the Bank was even accused of helping to disseminate *Právda*. Nonetheless Italy's trade agreements with Moscow continued down to 1932, when the Finance Minister, Jung, prohibited all Italian banks from making loans to the USSR in order to enable the government to use this exclusively as a bargaining-counter in its negotiations with the Soviet government.

Italy's international position was transformed by the deterioration of rela-

[18] Alberto Pirelli, *Taccuini 1922-1943*, Bologna 1984, pp. 249 ff.

[19] See E. Serra, *Nitti e la Russia*, Milan ISPI, 1975.

[20] Rome 1984: Professor Gabriele De Rosa is no relation of Professor Luigi De Rosa, the author of the first two volumes.

tions with Britain and then by the consequences of the Ethiopian War. What role did economic motives play in the latter? I think that it would be difficult not to agree with Gabriele De Rosa's conclusion that:

> "The war was not the logical outcome of the development of industrial capitalism in Italy, but was the result of a decision taken by Mussolini for political and ideological reasons... The war came about as a result of a rhetorical interpretation of Italy's destiny rather than through a more precise evaluation of the benefits that would accrue to the country's most advanced economic and financial interests".[21]

This was well illustrated by the way in which the Empire quickly proved to be a heavy drain on Italy's gold and hard currency reserves, and in fact the administration of the Bank of Rome applied to the government for compensation on the grounds that "the overseas offices of the Bank have acquired functions which are political rather than economic" [22].

In the light of the issues that have been considered in this paper it seems to me that it is possible to provide a reasoned and documented answer to the question as to how financial and industrial policies have affected the evolution of foreign policy. Even though more definitive answers must wait until more detailed research has been carried out on the newly available financial, industrial and commercial archives, the 'Italian case' suggests that the expansion of Italy's economic and financial geography went hand in hand with diplomacy, possibly with the former taking the more advanced positions, until the fascist seizure of power. Under the fascist regime the situation changed, and the regime used financial and commercial institutions as instruments of its own expansionist policies, with very limited and often entirely negative results.

This conclusion runs very close to the observation made by Jean-Baptiste Duroselle (to whom I dedicate this essay as an expression of the admiration and friendship for him which are the fruit of shared interests over many years):

> "What financiers want is for diplomats to help them whenever they call on them, without expecting in return to be required to undertake investments, or risky and unprofitable loans 'in the national interest', since their interests do not always concide with those of the nation or of politics"[23]

[21] G. De Rosa, *Storia del Banco di Roma op. cit,* III, p. 133.

[22] *Ibid.* pp. 190 ff. The reasons that Mussolini gave for the invasion of Ethiopia included the claim that it would provide an outlet for Italian emigrants - a claim that had been made earlier by Crispi. A 'Legion of Italians Abroad' was created which fought in the war and was settled in Ethiopia, but this resulted in a new flow of remittances from Ethiopia back to Latin America until the government took action to prevent this loss of currency - see *Ibid.* p. 158.

[23] J-B Duroselle, *Tout Empire Perira,* Paris 1981, p. 69.