

## Railway Investments in Italy in the 19<sup>th</sup> Century

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Economic history has at length analysed and debated the role played by railway constructions in economic development: a role that cannot be taken for granted. We all agree about the meaningful connection between railways and economic, social and financial modernisation of European countries.

In Italy the diffusion of railroads had not only economic significance but also political and symbolic ones in the national unity process and in the fulfilment of domestic market, linking populations and territories. The ruling class of Italian Risorgimento put herself to the test with the problems of building and managing the railway network.

In my paper PR focus on two main aspects:

1. the role of foreign investments in construction and running of Italian railways in 1860-1890 period,
2. the entry of Italian capital flows in European financial market related to railways sector.

1) Foreign investments had a considerable importance in the whole Italian economy since the first half of Nineteenth century. After the accomplishment of national unity, those capital flows of capitals became larger and increasingly diversified. The aim of "making" the country strengthened the recourse to foreign capitals, lured by new opportunities of investment in services and infrastructures. In the new Kingdom Treasury needs determined the dependence of Italy from foreign markets, with strong political implications. During the 1860-65 period 30% of Italian public debt was foreign-owned, foreign capital in Italian private companies were estimated at 1,2 billions lire (3,5 billion €), of which 70% in the railway sector.

The narrowness of Italian capital market and the difficulties to leverage stressed the role played by merchant bankers (the name of Rothschild is just the more high-sounding). Their role was crucial in railway sector, due to the distinctive features of that kind of investment: it requested conspicuous amounts, offered postponed earnings, involved a large commitment of the State.

It was precisely around the railway investment that took shape the complex connection between foreign capitals, domestic funds and State resources that acted as a structural element of Italian economy.<sup>71</sup>

The difficulties pertaining to this "triangle" were immediately perceptible since the first decade of national unity. The key issue was clear: who will build, own and manage the network? The question involved economic principles, technical aspects and powerful interests, as it became evident in the contract with the so-called Società Alta Italia controlled by Rothschild, Talabot, Galhera.

The Right wing governments practised a "statalista" railway policy that alarmed international financial "milieu", notwithstanding the personal relationships between the Most prestigious political leaders with main foreign bankers. Lionel de Rothschild talked about "bankruptcy of the companies".<sup>72</sup>

It was a system not always coherent in which foreign bankers played a crucial role and were at the same time disliked by the excess of State control but reassured by financial grants offered by Italian Treasury. We've to consider that the expenditures directly sustained by the Treasury had been conspicuous (almost 500 millions lire, 1,6 billion €) in 1865-75 period) due to formulas such as minimum earning granted by the State or kilometric funding had injected a rich flow of State resources to the railway sector.

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<sup>71</sup> F. BONELLI, *Il capitalismo italiano. Linee generali di interpretazione*, in *Storia d'Italia. Annali* 1, Torino, Einaudi, 1978, pp. 1208-1210.

<sup>72</sup> Quoted in G. CAROCCI, *Agostino Depretis e la politica interna italiana dal 1876 al 1887*, Torino, Einaudi, 1956, p. 173-174.

In 1876 the Left government inherited a situation with plenty of financial and Management troubles. The original liberist attitudes had to be softened not only for the need to establish a political arrangement between the different groups represented in the Parliament, but also for the concrete problems of the network, still to be completed and administrated.<sup>73</sup> Moreover the hinged coalition had to gain the confidence of international business establishment.

The Depretis Government launched positive signals of willingness with the approval of Basilea Convention about the administration of Società Alta Italia (spring 1876) and the Mission of Domenico Farini in London and Paris (fall 1876). In the following years the Government spurred foreign big companies, with the opportunities opened by new railway law of 1879 (1.29.7.1879 n. 5002).

Well-known as *legge del banchetto ferroviario*" (railway dinner law), it regulated the building of more than 6.000 km. of new lines, with a budget plan of 1.500 billions lire (about 5 billions €) granted by public entities. The conditions of securities issues enhanced the role of the Treasury as a magnet for private investments. Foreign funds maintained crucial positions for all the Eighties, with some relevant transformation in their provenances (emerging of German capitals). In the same years domestic investment began to assume a more defined identity.

2) The second aspect I will deal with - maybe less known - it's the entry of Italian funds in European financial market just incited by railway investments.

Railway investments roused the development of financial markets in main European countries and in the United States, fostering the amounts of leveraged funds, the number of securities traded and the number and social composition of investors. Those deeps and long lasting transformations of saving patterns, took place in Italy only gradually. Scarcely articulated domestic capital market, suffered from the crowding out provoked by Treasury bonds.

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<sup>73</sup> G. TONIOLO, *Storia economica dell'Italia liberale 1850-1918*, Bologna, 11 Mulino, 1988, pp. 127128.

So, for a narrow group of Italian "capitalists" investing in European railways represented an important occasion to differentiate their assets abroad. Between them we find Alessandro Torlonia, roman banker and entrepreneur of European stature. The well-knit relationships established with European partners since the Thirties dealing in Papal States and Naples bonds opened to Alessandro the door to other kind of investments. He linked a thirty-years partnership with the Rothschild Maison, and dealt transactions with Fould in Paris, Fox in London, Parodi in Genua and many Austrian and German banks. By means of those ones he bought equities in Milano-Monza line. He was shareholder in English lines in Wiesbaden line, in Strade Ferrate Sarde. He often chose the mean of crossed participations (in example with Crédit Mobilier or Bank für Handel und Industrie di Darmstadt).

But the most significant choice of Torlonia was directed towards the Compagnie des Chemins de Fer du Nord, the flagship of James de Rothschild<sup>4</sup>. The history of the Compagnie is well known: I simply recall that the huge corporate capital (200 millions of FF) was subdivided in a great number of shares (400,000 shares of 500 FF each). Torlonia was a member of the large group of European investors (more than 20,000): he brought shares, bonds and the various kind of securities issued by the Compagnie.

So we can say that railways represented one of the most important sector for Italian outing flows in the Nineteenth century, giving the way to a greater integration of the Italian economy in the European financial arena.