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Introduction

1.1 Italy ranks today as one of the seven largest industrial countries in the world. Its people are among the world's richest whether one uses as a measure per capita income or the more broadly based Human Development Index (United Nations Development Program 1990). These observations alone would suggest that Italy's rise to economic prominence merits attention. But the country's success is all the more arresting because it was so unexpected. The city-states and principalities of the Italian peninsula were economic leaders in Europe for much of the period between the twelfth and the seventeenth centuries but their prosperity waned as the locus of economic activity and economic power shifted from the Mediterranean to the Atlantic. At the time of unification in 1861, much of the country was backward, poor and agrarian. Per capita income was roughly 50 per cent of that in Britain and about 60 per cent of that in France. While some Italians retained business skills and commercial know-how acquired during the late medieval and early modern economic expansion, very few, even among the country's most ardent champions, would have believed that, in a relatively short period of time, Italy would emerge as an industrial powerhouse. This process of growth and structural change has generated a huge and evolving literature, loaded with controversies and, often enough, compelling insights. The purpose of this monograph is to provide a concise, up-to-date account of this literature, to highlight new insights into old problems, and to signal areas desperately in need of more research. This emphasis on historiography instead of history is intentional. There are now a couple of excellent textbooks on Italy's modern economic growth (Toniolo 1990;

Zamagni 1993a) but no comprehensive, critical review of the material on which these accounts are based. We have attempted in this book to fill the gap.

1.2 Italy succeeded in spite of formidable obstacles. The country lacked natural resources, especially one of the staples of nineteenth-century industry, coal. For many contemporaries, coal was the *sine qua non* of industrialization and without it Italy, they felt, was condemned to remain a second-rate industrial power. They were, of course, wrong. Some industries such as silk in which Italy had a comparative advantage were much less dependent on coal than others. There were ways to economize on the use of coal and other raw materials and Italian manufacturers exploited them. There were substitutes. Italian entrepreneurs, for example, realized early on that hydroelectric power was a compelling alternative to coal and invested heavily in its development and use. Although the import content of industrial output was relatively high, the fear of many that growth would put excessive strains on the balance of payments was unfounded.

There was a distinct shortage of fertile, well-watered, easily worked farmland in Italy. Much of the arable land was, instead, hilly or mountainous, or, even worse, swampy and malarial. The essence of the problem was not, however, land quality but low labour productivity – in short, there were too many farmers chasing too little land. Resolution was simple in theory – move people off the land – but difficult in practice. It did happen through a mixture of massive emigration, and, more slowly, through the growth of non-farm employment opportunities: as late as 1951 agriculture was still the largest sector in terms of employment.

On the other hand, there was at least one significant positive feature associated with high population density. Italian industrialists faced a very elastic supply curve of labour and could, under the right conditions, expect very high rates of return on their investments. Although unlimited supplies of labour alone explain neither the timing nor the nature of growth, they were an important permissive factor (Kindleberger 1967). In short, when opportunities for non-farm employment called, workers were quick to respond.

A unified national market and, for that matter, a unified nation depends on the nation's capacity to move goods, people and information around the country with relative ease. Geography, however, made this much more costly in Italy than elsewhere. Mountains crisscross the peninsula and, in many places, separate coastal areas from the interior. Efforts to link the country through rail and roads put enormous fiscal pressure on government budgets and continued to haunt the country well into the twentieth century.

1.3 A few features of the growth process in Italy were distinctive. Italian industry, not known for its technological innovations, demonstrated a remarkable ability to adopt technology developed elsewhere and adapt it to local conditions. This skill was particularly instrumental in facilitating growth in the post-WWII period but has been a part of Italy's industrialization from the beginning.

Small and medium-sized firms in Italy have accounted for a much larger percentage of industrial output and employment than in other countries at similar levels of per capita GDP. Although once taken as evidence of Italy's incomplete development, many now see it as a source of competitive strength – potential efficiency losses are more than compensated by an increase in flexibility and reduction in response time to changes in market conditions.

A related but distinct phenomenon of Italian growth, now hailed as a major organizational innovation, is the tendency for small and medium-sized firms to congregate in industrial districts. These groupings, in essence, allow participants to retain the benefits of small size without sacrificing the economies associated with scale. The classic case of an industrial district – and one still going strong after two centuries – is silk production in the area around Como.

Italian governments, like governments elsewhere, employed all the usual policy instruments – interest rates, taxes and expenditures, tariffs and exchange rates – to influence allocation, distribution and the level of economic activity within the country. In one respect, however, Italy was special. For a variety of reasons, governments of all stripes – liberal as well as fascist – were unwilling to allow large firms to fail. To make a long story short, by 1960, as a result of this policy, the Italian state owned a large share of its country's businesses. The consequences of this are still being debated.

One of the distinctive features of Italy's long-term growth was the stubborn persistence of the North–South divide. Although there is still some question about the impact of unification on the South, there is little doubt that by 1914 the North was by every economic measure far ahead of the South. During the inter-war years, conditions deteriorated in the South and the gap widened. In spite of major efforts to promote development in the South after WWII, by 1960, while per capita income in the South had indeed gone up, it went up even more in the North. It is only now, at the very end of the millennium, that some regions in the South (the Abruzzi, Molise, the Puglie) have shattered the old mould and begun to close the economic gap with more advanced regions.

1.4 There has been over the last three decades a dramatic increase in the quantity of articles and books written on the economic history of modern Italy and in the quality of economic analysis contained in them. The practice of reading history ideologically and using it for political purposes – witness the Romeo–Sereni debate over the role of agriculture in the development process – is giving way to more objective approaches to the past. Research topics, once dominated by social and political considerations, are now driven as much (or more) by economic questions. As a result, the conventional wisdom on a wide range of topics is being revisited and revised in light of new data, more precise formulation of hypotheses, and often more rigorous testing. Cliometrics, in short, is thriving in Italy, and on a wide range of topics, helping scholars to rewrite the country's economic history. Thus, recent revisions to the national income accounts are modifying the traditional picture of the timing and pattern of economic growth. Tenancy arrangements in agriculture, once viewed as the cause of rural backwardness, are now seen as attempts to accommodate risk. New work on industrial organization has shown that industry was less concentrated and much more competitive than the older literature would have us believe.

Although much remains to be done – some topics are understudied, others overworked but badly in need of revision – this is an excellent moment to undertake a comprehensive and critical review of the literature on Italy's remarkable economic growth between 1820 and 1960.

We proceed as follows. In chapter 2, the data on long-run growth are reviewed and evaluated. The main source remains the path-breaking, if flawed, national income series produced by the Italian Statistical Institute (ISTAT) in 1957. These may be supplanted by new estimates being prepared by a group sponsored by the Bank of Italy, but only time will tell. Attempts to model Italy's long-term growth are considered in chapter 3. Although most focus on the years 1861–1914 (the post-WWII years are treated separately in chapter 7), a few are more ambitious. Aside from a general consensus that Italy's growth is best described by cyclical fluctuations around a rising trend and not by a discontinuous growth spurt, there is little that unites the various models. The general consensus that agriculture performed abysmally throughout much of the period 1861–1938 has, in recent years, come under serious attack in terms of both data and interpretation. The old views and the new are discussed in chapter 4. Industrialization Italian-style is, without doubt, the most controversial feature of the country's long-run growth. In chapter 5, long-standing debates on industrial structure, finance, labour supply, technical change and the role of the state are evaluated in light of recent research. In chapter 6, we review the existing literature on the macroeconomic history of pre-1940 Italy, giving particular attention to Fratianni and Spinelli's highly provocative and sophisticated monetarist challenge to the ruling orthodoxy. Between 1950 and 1960, Italy finally came of age as an advanced industrial economy. In chapter 7 the explanations for its remarkable post-war growth are presented.

2

Measuring change in the long run: the data

2.1 After a brief burst of research on the economic causes of the Risorgimento (the political process of unification) in the 1950s and early 1960s, in large part stimulated by the centenary of Italian unification in 1961, historians lost interest in the economic history of pre-unification Italy.[1] Thus, recent reviews of the literature by Pescosolido (1998) and Crepas (1999) have almost nothing new to say about the period 1815–1860. This is most unfortunate because, in spite of tantalizing suggestions by Cafagna (1989) and Bonelli (1979) – see chapter 3 – that modern economic growth in Italy probably predated unification, these and other issues have received very little attention. There are, moreover, underutilized sources of information on the period. In short, then, the pre-unification period is still awaiting the renaissance in economic history research experienced by other periods. The pay-off to such renewed attention could be substantial.

Foreign trade statistics are the most reliable and by far the largest set of data we have on the real economy before 1861 (Federico 1991). We could, in principle, use these data to construct a 'national' trade series and, through them, gain insights into the real economy. In practice, it is a challenge. Differences in collection criteria, presentation, the efficiency of the statistical agencies, and the amount of smuggling between the pre-unification Italian states, make the construction of an aggregate series, at best, difficult. Only one state, Piedmont, has year-by-year trade data for

[1] IRI and the Banca Commerciale Italiana sponsored two multi-volume series of studies, the *Archivio economico dell'unificazione italiana* and the *Studie e ricerche di storia economic italiana nell'eta del Risorgimento*, to celebrate the centenary of the unification.

the entire period 1815–61. Since most states failed to organize imports and exports by country, it is often impossible to distinguish intra-Italian trade from that with other countries. A substantial part of the foreign trade of Lombardy and Veneto went unrecorded, as both regions were at the time parts of the Habsburg Empire. No one has ever tried to reconstruct a balance of Italian trade, and even the available data by state can be used only as a rough guide to real trends in trade. Both imports and exports grew, but the rates seem quite low. Those for imports are often higher, but it is unclear whether this reflected trends in the real economy, including reductions in trade barriers (and were compensated by a net inflow of foreign capital), or simply a decrease in smuggling. Exports may have grown slowly because traditional Italian goods, such as olive oil or clothing, were uncompetitive on world markets (a supply problem), or because demand for them was sluggish. On the other hand, raw silk exports were booming: they increased by 60 per cent from the 1820s to the 1850s, when growth was halted by a serious silkworm disease (Federico 1997). They came mainly from the North (Piedmont and Lombardy), and were to be Italy's main staple after unification.

Foreign trade data, in spite of their shortcomings, are excellent when compared with those on production. As a result, opinions differ among scholars about what happened, especially in agriculture. According to Romani (1982), aside from a few farm products, notably silk, agricultural production stagnated. Biagioli (1980), on the other hand, argues that it grew, with widely different performances between areas and crops. Pescosolido (1998), the most sanguine, maintains that it increased substantially almost everywhere. It is, in fact, unlikely that production of food crops stagnated. Population grew by 40 per cent from 1801 to 1861 (Del Panta 1996), while imports of basic foodstuffs grew less rapidly. Since there is no evidence of mass starvation, it is reasonable to suppose that domestic production grew at least enough to maintain consumption levels. There is less controversy about industrial production. While there is some evidence of successful initiatives in textiles and light industry, most would probably agree that industry did stagnate during this period (Mori 1989).

It is possible to conclude that per capita GDP in Italy grew very slowly if at all during the period 1810–60. This position is supported by the only available estimate of national income in those years (Malanima 1998). From 1810–30 to 1861, the GDP per capita in the Centre and North of the country increased by a fifth (at about 0.5 per cent p.a.). This modest increase was, however, insufficient to offset the sharp fall from the 1750s onwards. In short, the income level achieved in the Centre–North in the fourteenth to fifteenth centuries was regained only in the late 1890s. These estimates need not be viewed as the last word on the subject. Malanima deals with the changes in the very long run, and with a part of Italy only. The rest – the South – was one of the poorest regions in Europe (Reis 2000). Zooming in on the first half of the century, using all the available sources, and extending the estimate to the whole country might yield different results. We would argue that such work should be given top priority, not only for its own sake, but also to help us understand the performance of the economy in the second half of the century.

2.2 The government of the new Kingdom of Italy felt an urgent need to know the economic conditions of the country. The first census of population was held in 1861 and from then on the Ministero di Agricoltura, Industria e Commercio (MAIC for short) collected a wide variety of economic statistics on output, prices, wages, finance and so on. The exercise continued for almost thirty years until it was brought to an abrupt halt by a severe budgetary crisis. Roughly a century later, in 1957, the Central Statistics Institute (ISTAT), working with these data, published annual estimates of GDP, consumption and investment for the period 1861–1956 and, a year later, brought out a collection of historical statistics (ISTAT, 1957, 1958). This work, without any doubt a major scientific achievement, was, like many pioneering efforts, flawed. It lacked key series (such as output by sector at constant prices), details on methodology and sources, and an appropriate degree of scepticism about official sources (cf. chapter 4 for an example). Since then, ISTAT has updated its current series four times to account for the so-called grey market, that is, economic activities that are not recorded in the official data (Maddison 1992).

Golinelli and Monterastelli (1990) have attempted to produce a coherent series for the period since 1951, based on the latest

ISTAT revisions. They assume that the growth rates estimated by ISTAT in the original series were correct but that the levels of GDP were too low. But if the grey market was insignificant in 1951, as new estimates seem to indicate (Bank of Italy group: see Rey 2000), then the 1951 level of GDP as originally calculated by ISTAT was probably correct, and the post-war expansion even more rapid than was previously thought.

Although ISTAT has never revisited its estimates for the years prior to 1939, others have. The first serious attempt to improve on the ISTAT estimates was made by a team under the leadership of the economist Giorgio Fuà (1969). The team's contributions included estimates of value added by sector at constant prices, implicit deflators by sector and use, and the creation of a comprehensive series on the capital stock from 1881 onwards (Ercolani 1969). And yet, the Fuà team did not attempt to rebuild the rickety core of the work by ISTAT: the estimates of value added at current prices. It is for this reason that many economic historians, troubled by flaws in the original data, remained unconvinced by Fuà's revisions (henceforth referred to as the ISTAT/Fuà series). As a result, the search for better numbers continued. In recent years, scholars have introduced new data on value added and output (Rossi, Sorgate and Toniolo 1993; Maddison 1992, 1995; Bardini, Carreras and Lains 1995) and adopted more sophisticated weighting procedures (Fuà and Gallegati 1993). However, since all these estimates continued to rely on the original GDP estimates of ISTAT, as table 2.1 and figure 2.1 show, there is very little difference between the new series and that of ISTAT/Fuà in terms of either long-run growth rates (table 2.1) or time profiles (figure 2.1).

The data suggest that Italy, unlike other latecomers such as the Scandinavian countries, was unable to narrow the income gap between it and the leading industrial nations (see table 2.1 col. f). According to the most optimistic set of numbers, Italy managed to outperform these core countries in only one period, 1895–1913, the 'boom giolittiano', so-called in recognition of Giovanni Giolitti, a leading politician and often prime minister during these years. Italy had to await the 'golden age' of European growth in the 1950s to experience its own economic miracle (see chapter 7). This dismal assessment of performance

Table 2.1. *Growth rates in value added (linear interpolation)*

	(a)	(b)	(c)	(d)	(e)	(f)
Total GDP						
1861–1895	0.66	0.97	NA	0.66	0.75	2.50
1895–1913	2.77	3.62	2.59	2.88	3.07	2.89
1913–1939	1.56	1.55	1.87	1.68	1.39	1.82
1861–1939	1.78	2.24	NA	1.88	1.84	2.20
1939–1951	3.47[1]	4.43[1]	2.93[1]	3.59[1]	2.22[1]	1.55
1951–1963	6.27	5.68	5.97	5.42	5.68	3.06
Per capita GDP						
1861–1895	0.0[1]	0.30	NA	0.00[1]	0.08	1.30
1895–1913	2.08	2.97	1.90	2.19	2.38	1.63
1913–1939	0.61	0.62[1]	0.93	0.75	0.45[1]	1.17
1861–1939	0.91	1.20	NA	1.01	1.00	1.26
1939–1951	3.09[1]	3.99[1]	2.47[1]	3.19[1]	1.81[1]	0.90[1]
1951–1963	5.55	5.05	5.23	4.88	5.00	1.77

Note: [1] not significantly different from zero.
NA = no answer.
Sources: (a) Ercolani (1969); (b) Maddison (1992); (c) Rossi, Sorgate and Toniolo (1993); (d) Fuà and Gallegati (1993); (e) Bardini, Carreras and Lains (1995); (f) four major countries (USA, United Kingdom, Germany and France): GDP per capita computed as total GDP of these countries divided by population (Maddison 1995).

prior to WWII was confirmed recently by Rossi and Toniolo (1992). They computed total factor productivity growth from 1895 to 1939, using new estimates of GDP (still derived from the ISTAT series) and new input estimates, including a series on labour quantity. The authors conclude that ‘productivity increases appear to be minor determinants of overall output growth, the latter being dominated by factor inputs growth and scale economies’ (1992, p. 551).

A big question remains. If the scholars were to scrap the old ISTAT data and make new estimates based on the original sources, would the growth and timing picture remain the same? As it happens, we may soon have the answer to this question. There are now several new indexes of industrial output (see chapter 5)