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# **The Growth of the Italian Economy, 1820–1960**

*Prepared for the Economic History Society by*

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# 1

## 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.