

Strengths and Weaknesses in Industrial Development between 1945 and 1979

1. The start of reconstruction

The effort to rebuild industry commenced as soon as the armies left the field. Italians of that generation well remember the fervour and moral engagement with which the workers rolled up their sleeves in factories that had suffered varying degrees of damage. In some cases, for instance at the Ilva works in Bagnoli, they even had to reassemble the machine tools that the Germans had blown up before pulling back.

Most branches of industry made significant strides in the first three years after the war. Some, such as the electricity industry, achieved outstanding progress, equalling and even surpassing the prewar levels.¹ Others lost ground, however; in mining, for example, output declined because Italy lost important deposits under the terms of the peace treaty. In a detailed sector-by-sector analysis, Mario Saibante, who at the time taught statistics at the University of Rome, concluded that industrial production rose by 8 per cent between 1947 and the first 10 months of 1948. Factoring in some branches of activity that had not yet been developed in 1938, such as oil refining, natural gas production and certain types of chemicals, Saibante estimated the overall index at around 85 per cent of the 1938 level.² In his view, the fact that Italy had yet to equal its prewar level of industrial output was due less to wartime damage than to the altered domestic and international circumstances.

The pattern of international suppliers of raw materials and outlet markets had changed radically, not to mention the fact that the government, in Italy always one of industry's best customers, had clamped down on orders, obliging firms to cut back plant utilization almost overnight. There had also been deep-seated changes in financial relations and in the parity of the lira, exacerbating a situation in which firms already had to cope with excess workforces, low productivity and wage pressures. But ERP aid had undeniably made it possible

¹ The indices of industrial production were as follows:

	1938	1946	1947	1948 (10 months)
Textiles	100	62	81	79
Mining	100	74	70	63
Metallurgy	100	38	63	80
Construction materials	100	87	79	86
Electricity	100	116	136	149
Chemicals	100	47	75	78
Total	100	57	75	81

Source: M. Saibante, "Italian industry in 1948", *Review*, III, 1 (January 1949), p. 28.

² Saibante, "Italian industry in 1948", pp. 28-29.

to resolve many industrial problems. Although the remaining factors of disturbance were neither few nor negligible, new and substantial trade flows were coming into being and labour appeared to be taking a more cooperative attitude, as was demonstrated by the shift in the ratio of wages to total production costs towards a more reasonable level in 1948.³ These favourable forecasts were confirmed by the industrial census of November 1951.⁴ Every industry except tanning, leather and footwear largely exceeded the 1938 level.

The Marshall Plan's entry into force figured prominently in this rather rapid recovery. Of the \$1,855 million Italy had received up to April 1948, 23 per cent had been used for imports of solid and liquid fuels and the remainder for purchases of foodstuffs. And of the loans granted by the Export-Import Bank, only \$30 million had been allocated to purchases of equipment, i.e. 19 million for mechanical and electrical engineering firms and \$8 million for the steel industry and metallurgy.⁵ Thus, only after the start of the Marshall Plan was Italy in a position to import machinery on the scale required for industrial recovery.

No less than \$255 million – around a fifth of the \$1,303 million assigned to Italy by the ERP Fund from April 1948 to December 1951 – was used for imports of machinery and equipment. In particular, the electricity industry received loans amounting to \$66 million, the steel industry \$64 million, engineering \$60 million, textiles \$18 million, and the oil and gas industry \$12 million. These loans financed only a part of the total amount of industrial investment projects; they set in motion a much larger volume of investment.

In addition, Istituto Mobiliare Italiano (IMI) granted loans against a credit line of 50 million pounds sterling opened by the Export-Import Bank for purchases of machinery, equipment and ships in the sterling area. The leading beneficiaries, according to sector, included shipbuilding (28 per cent), engineering (13 per cent), aeronautics (12 per cent), oil (12 per cent) and textiles (12 per cent). Further financing for industrial investment was provided by the state budget.⁶ All this fuelled a plant modernization drive that soon produced palpable results. Electricity production was back to normal by the spring of 1950, and the returns of the 1951 census of industry clearly reflected the progress made in restructuring plants and normalizing the supply of raw materials. Without "the scale of American aid provided to our country in the postwar period", wrote Franco Mattei in the *Review*, "the economic, political and social reconstruction of our country after the war would have been much more arduous and prolonged

³ *Ibid.*, pp. 30-31.

⁴ F. Coppola D'Anna, "Italian industry according to the returns of the 1951 census", *Review*, VI, 5 (September 1952), pp. 367 *et seq.*; F. Coppola D'Anna, "New elaboration of the returns of the industrial census of 1951, with reference to the census carried out in the years 1937-39", *Review*, VI, 6 (November 1952), p. 483.

⁵ F. Mattei, "L'industria italiana nel dopoguerra", in *L'economia italiana nel decennio 1947-1956. Review*, special tenth anniversary issue, 1957, pp. 70-71.

⁶ *Ibid.*

and subject to events that could have radically altered, perhaps forever, the bases of our civilization".⁷

2. Growth in the fifties

The sustained, rapid advance of Italian industry also benefited from the progressive liberalization of imports from the OECD area, which Italy determined unilaterally in November 1951 in view of its sizable trade surplus vis-à-vis the countries of the European Payments Union. In spite of the concern of engineering and chemical companies over foreign competition, and with liberalization also being extended to the domestic market,⁸ by the end of 1955 industry had posted even larger gains (again with the exception of the tanning, leather and footwear sector). In some industries, such as chemicals and food-processing, output was around three times higher than in 1938; in others (including the extractive industries, engineering, metallurgy and electricity) it had grown more than twofold.⁹

In 1952 the European Coal and Steel Community was formed and trade liberalization reached a point of no return. Progress continued and, indeed, accelerated in the following years. Industry's contribution to GDP, which had been 30.7 per cent in 1931-35 and 45.8 per cent in 1951-55, rose to 48.3 per cent in the five-year period 1956-60, whereas agriculture's contribution, which had stood at 35 per cent in 1931, slipped to 22 per cent in 1956-60.¹⁰ Over the same five years industrial production grew by 42.4 per cent overall, naturally with differences from sector to sector: 56.7 per cent in transport equipment, 52.5 per cent in rubber, 46.9 per cent in nonferrous minerals processing, 43.6 per cent

⁷ *Ibid.*, p. 72.

⁸ *Ibid.*, p. 73.

⁹ Indices of industrial production (1938=100):

	1948	1949	1950	1951	1952	1953	1954	1955	1956	1st half
Extractive	83	92	103	124	150	179	201	241		292
Electricity	146	134	159	188	198	210	229	246		253
Metallurgy	86	85	105	135	150	149	173	213		224
Engineering	105	118	129	142	155	171	179	204		226
Chemicals	101	117	140	184	185	227	284	314		334
Rubber	103	115	132	152	142	160	194	202		193
Textiles	100	102	109	116	108	116	117	104		108
Leather, footwear	75	78	85	79	90	90	92	85		83
Food products	96	113	136	140	147	150	157	268		164
Constr. materials	91	96	120	129	138	162	175	207		210
Wood products	95	103	123	139	161	167	173	176		166
Paper products	72	90	105	113	112	127	132	143		157
General index	102	110	126	144	150	164	181	197		207

Source: F. Mattei, "L'industria italiana nel dopoguerra", in *L'economia italiana nel decennio 1947-1956. Review*, special tenth anniversary issue, 1957, p. 69.

¹⁰ F. Mattei, "Italian industry's in the five-year period 1956-1960", *Review*, XV, 6 (November 1961), pp. 479-80.

in shoe production, 40.1 per cent in manufacturing industry as a whole, 30.6 per cent in electricity generation.¹¹ The output of capital goods rose faster than that of consumer goods. Basing the figures for 1953 at 100, the former reached 198.5 and the latter 158.6 in 1960. This was a sign both of Italy's greater economic maturity and of accelerated plant construction, expansion and modernization.

3. Industrial growth and the balance of payments

As industrial production grew, so did Italy's external dependence. Lacking in almost every important raw material and with an economy based on the processing of imported supplies, Italy depended on export growth in order to be able to import more. The value added to the raw materials that Italy imported and in part re-exported enabled it to continue building up its industry. The delicate and precarious nature of the equilibrium on which this situation rested was revealed after 1961: a succession of payments surpluses that had strengthened, the exchange rate of the lira gave way to a series of shortfalls, due mainly to substantial and increasing deficits on the balance of trade (from 650 billion lire in 1961 to 1,558 billion in 1963). The rapid growth in national income had called forth an even larger growth in the money supply, generating inflationary pressures that led to a massive increase in domestic demand and hence in imports. Widespread fear that inflation was a prelude to devaluation spurred businessmen to build up stocks of raw materials, semi-processed goods and imported products beyond all real and reasonably foreseeable needs.

The import rush lasted until the early spring of 1964, when an agreement between the U.S. government and the Italian monetary authorities reaffirmed that the lira-dollar exchange rate would not be altered. Speculative hopes were punctured and imports fell drastically: between April and September 1964 imports of raw materials, semi-processed and basic products for industry and consumer goods contracted by 19.4, 24.9 and 16.1 per cent respectively.¹² In contrast with this across-the-board reduction in imports (except for energy and fuels, which increased by 11 per cent), exports turned upwards in almost every sector. The cost to firms of carrying huge speculative inventories of unsold goods, together with the pressure of the wage increases granted in 1962 and 1963, helped to trigger the export recovery. By the end of the year, the trade deficit had diminished by 223 billion lire. Yet this did not translate into any lessening in cost-push inflation, which actually grew worse, as labour costs continued to rise, though more slowly than in 1963,¹³ factories were not working to full

¹¹ *Ibid.*, p. 483.

¹² F. Mattei, "Italian industry's export problems", *Review*, XIX, 3 (May 1965), p. 212.

¹³ Wage increases averaged 12 per cent in 1962, 16.9 per cent in 1963 and 15.3 per cent in 1964. In industry, wages rose by 14.3 per cent in 1963 and by 17.4 per cent in 1964. In construction, the corresponding figures were 12.3 and 33.6 per cent; in transport, 12.3 and 33.6 per cent. In addition to these increases, one has to count the 10 point rise in the cost-of-living escalator, which cost employers around 47.5 billion lire. In February 1965 the escalator rose by another 2 points. *Ibid.*, p. 213.

capacity, which meant higher unit fixed capital costs, and corporate taxes rose by 13.3 per cent, against a real increase of 2.7 per cent in national income. In conclusion, the improvement in the balance of payments in 1964 coincided with Italy's 'most serious industrial recession' since the war.¹⁴

After 1965 industrial production began to grow again,¹⁵ albeit with varying intensity according to sector. Exports rose more briskly, increasing by 20.1 per cent between 1965 and 1966. Within industry, manufacturing showed strong growth, its index of production (1966=100) rising to 108 in 1967, 115 in 1968, 119 in 1969 and 124 in 1970.¹⁶ In 1967 products of the engineering industry ranked first among industrial exports with a 42 per cent share, followed by textiles (11.6 per cent), chemicals (8.5 per cent), clothing and leather goods (7.9 per cent), oil and coal products (6.9 per cent), metal products (5.6 per cent), and food products and the like.¹⁷ Export growth slowed to 16.8 per cent in 1967 despite the government having adopted various measures to ease the fiscal burden on exports, including charging part of employers' social security contributions to the budget for the first time.¹⁸ The large increase recorded in 1966 had, in fact, been due to the recovery from the recession of 1964-65 and reflected the positive phase of the business cycle. The slowdown in 1967 was attributable to the change in business conditions, particularly in such important markets for Italy as Federal Germany. It was accompanied by a worsening in Italy's terms of trade, the prices of imports rising by 3.8 per cent and those of exports by only 1.8 per cent.¹⁹

4. The emergence of the service sector

Industrial production continued to recover and manufacturing led the way. Large increases were recorded in paper, chemicals, rubber, refining, glass and cement, metallurgy and electricity, among other sectors.²⁰ But a point worth stressing is that, although industry's gross product rose by 7.9 per cent in 1967 (and continued to expand in the first quarter of 1968),²¹ also in that year industry lost its position as the leading contributor to national income: agriculture's share amounted to 12.4 per cent and industry's fell to 40.5 per cent, while that of services jumped to 47.1 per cent. Industry nonetheless still accounted for the

¹⁴ *Ibid.*, pp. 210-14

¹⁵ Setting 1966 production, based on average monthly data, equal to 100, in 1969 sectorial indices showed large gains in glass and cement (134), paper (132), wood products (128), electricity (123), metallurgy (126), engineering (120), chemicals (119), and rubber (118), and smaller gains in textiles (104). See Statistical section, industries", *Review*, XXIV, 2-3 (March-May 1970), p. 192.

¹⁶ *Ibid.*

¹⁷ T. Mattei, "Italian industry and its development prospects", *Review*, XXII, 4 (July 1968), pp. 263-64.

¹⁸ *Ibid.*, p. 215.

¹⁹ Mattei, "Italian industry export problems", p. 213.

²⁰ "Statistical section, industries", *Review*, XXII, 1 (January 1968), p. 64; "Statistical section, industries", *Review*, XXII, 5 (September 1968), p. 418.

²¹ Mattei, "Italian industry and its development prospects", p. 260.

largest proportion of total employment: 40.7 per cent, compared with 23.9 per cent in agriculture and 35.4 per cent in services.²²

5. A boom and a recession

The seventies opened with a boom in industrial production. The general index (1966=100) rose by some 8 points in 1970 to stand at 127.2, compared with an increase of 3.6 per cent the previous year.

The largest output gains were shown by the sectorial indices for engineering (134.7), electricity (131.2), metallurgy (130.8) and transport equipment (130.4); smaller increases continued to be recorded by textiles (103.6) and food products (126.2).²³ But the extraordinary result for 1970 was not duplicated the next year, which, on the contrary, was entirely negative. While investment remained unchanged as a whole, with a sharp fall of 2.5 per cent in purchases of machinery and plant, per capita labour costs rose by 12 per cent and unit labour costs by 13.3 per cent, an increase whose impact was magnified by the decline in productivity. Once again, the difficulties could be traced primarily to problems originating at home: the slump in the construction industry, tense labour relations and worker absenteeism exacerbated the situation of firms, which had to contend with past losses and inadequate profit margins. But according to Franco Mattei,²⁴ the principal factor was the contraction in domestic demand. In part, this reflected the reduction in fixed investment. More important, the erosion of the purchasing power of wages by inflation had neutralized the wage increases of 1969 and 1970, while the growth in unemployment meant less production and more expenditure for short-time working compensation. The situation had been made worse by the declaration of the dollar's inconvertibility in mid-August 1971, which had spawned tensions in the international monetary system and uncertainty as to which parities to adopt.²⁵

6. The crisis

The negative forecasts for 1972 turned out to be wrong, as domestic demand resumed growing and this fed through to production, which expanded by 2.4 per cent over the year. But this progress, however modest, was the result of early spending by consumers, who moved forward their purchases of goods in order to avoid paying value-added tax, which was to come into force on 1 January 1973. During the year consumer-goods manufacturers' orders had been up by between 5 and 8 per cent; in the closing months, and particularly in November,

²² *Ibid.*

²³ Statistical section, industries", *Review*, XXV, 2 (March 1971), p. 157; "Statistical section, industries", *Review*, XXV, 6 (November 1971), p. 511.

²⁴ F. Mattei, "Situation and prospects of Italian industry", *Review*, XXVI, 5 (September 1972), pp. 349-50.

²⁵ *Ibid.*, pp. 350-52.

they leapt by 25 per cent. Demand expanded in textiles, chemicals and engineering. The upturn in demand for transport equipment came late in the year owing to protracted strikes in the sector. A slight recovery was also recorded in the building industry and in construction materials.²⁶

7. The oil crisis

The upturn that began in 1972 strengthened in 1973, when industrial production grew by 9 per cent despite a spate of strikes in the first two months of the year. Output was especially strong for capital goods, signalling that the expansion in demand was also bringing a recovery of investment in the public-works sector. But if 1973 is recalled by some as the year of the cholera outbreak in some parts of the Mezzogiorno, it is remembered by all as the year of the oil crisis, which exploded in the autumn and triggered panic over the shortages of oil, raw materials and semi-processed goods in the international market. These circumstances, together with the restrictions on the use of private cars, also caused a 20 per cent drop in the number of foreign visitors to Italy and throttled domestic tourism.²⁷

Demand for durable goods continued to grow until the middle of 1974; thereafter saturation set in, and demand for consumer goods as well as for durables fell markedly. Inflation and the increases in taxes and public service charges decided by the government further eroded households' purchasing power,²⁸ while the precariousness of the financial situation as a whole and the difficulties in finding financial resources forced firms to shelve plant renewal and expansion plans. The money and financial markets overheated, as interest rates, already high, headed upwards in keeping with inflation. The anti-inflationary policy which the monetary authorities promptly adopted, based at least in intention on the direct control of credit growth with some mitigation for small and medium-sized firms alone, further choked domestic demand.

Nonetheless, 1974 closed with industry still showing growth. Setting 1970 output equal to 100, the general index of industrial production reached 113 and the index of manufacturing production 118. Above-average growth was posted by wood products and furniture (129.8), metallurgy (129), chemicals (128.9), electricity, and gas and water supply (128.4), construction materials (123.4), engineering products (120.3), chemical fibres (118.8) and food products (118.2). Sub-par results were turned in by construction and related industries (91.9), clothing and leather products (101.3), oil and coal products (106.1), and transport equipment (106.3).²⁹

²⁶ 'Two months of economic activities in Italy', *Review*, XXVII, 1-2 (January-March 1973), pp. 65-66.

²⁷ 'Two months of economic activities in Italy', *Review*, XXVIII, 3 (March 1974), pp. 160-61.

²⁸ E. Mattei, 'Situation and prospects of Italian industry', *Review*, XXIX, 5 (September 1975), pp. 378 *et seq.*

²⁹ *Ibid.*, p. 386.

8. Highs and lows

Industry's performance was a good deal less positive in 1975. The downturn began towards the end of 1974, and the sector showed signs of recovering only in the fourth quarter of 1975, but, even then, its output growth was less than 1.5 per cent year-on-year. The capacity utilization rate fell from 78.3 per cent in 1974 to 68 per cent in the last quarter of 1975. Demand also continued to flag, while firms were burdened with large stocks of unsold goods and high interest rates on their debt capital. Over the year as a whole industrial production fell by 9.5 per cent and manufacturing output by 10.2 per cent.³⁰

In 1976 industrial production grew by 12.3 per cent, more than offsetting the decline of the previous year. The trend in Italy was of the same direction as in the other industrial countries. The prime cause of the recovery was the inventory cycle; having run down their stocks, firms had to step up production. Growth varied in extent but was recorded by all sectors: 4.3 per cent for mineral products, 7.1 per cent for engineering, 7.8 per cent for transport equipment and oil and coal products, 9 per cent for food products, 11.5 per cent for basic metals, electricity and gas, 12.9 for chemical and 18.1 per cent for textiles. The largest increases occurred in the sectors that had been hardest hit by the crisis. The sole exception was engineering, which in the early part of 1976 was still plagued by the effects of the disputes that had accompanied the national contract settlement. The recovery in chemicals and engineering, which drove the capacity utilization rate up from 68 per cent in the third quarter of 1975 to 75.2 per cent in the fourth quarter of 1976,³¹ carried over into the first half of 1977. A period of stagnation ensued, confirmed by the considerable recourse to short-time compensation, which increased from 44 million man-hours in 1976 to 75 million in 1977. The unemployment rate rose to 7.2 per cent in 1977, and the number of unemployed workers was 25 per cent higher than a year earlier.³²

Stagnation persisted through to the end of the first half of 1978. The index of industrial production was on average 1.2 per cent lower than in the corresponding month of 1977, even though not all industries had felt the crisis. For example, output rose by 7.7 per cent in chemicals, 5 per cent in transport equipment, 3.6 per cent in food products and 1.5 per cent in basic metals; it declined by 1.3 per cent in engineering, by 3.9 per cent in non-ferrous mineral products and by a massive 12.6 per cent in textiles. The number of employed workers decreased by 70,000, equal to around 1.1 per cent of the industrial workforce. At the same time, the number of self-employed workers increased by 29,000, or by 2.7 per cent. This growth in self-employment reflected the proliferation of craft production and small firms in connection with outsourcing

³⁰ "Two months of economic activities in Italy", *Review*, XXX, 1 (January 1976), pp. 119-20

³¹ "Two months of economic activities in Italy", *Review*, XXXI, 1-2 (January-March 1977), pp. 69-70.

³² "Two months of economic activities in Italy", *Review*, XXXII, 2-3 (March-May 1978), pp. 153-54.

in some industries, which sought to obviate the rigidities that were suffocating large manufacturers.³³

The situation brightened in the second half of the year, so that industrial production rose by 2 per cent in 1978 as a whole, compared with zero growth in 1977.³⁴ In summary, as Paolo Savona emphasized, between 1970 and 1978 industrial output rose at an annual average rate of about 2.8 per cent, compared with average annual wage growth of 18.6 per cent and productivity growth of only 2.7 per cent.

Despite the increase, industrial wages were still lower in Italy than in France, Germany, Belgium and the Netherlands. On the other hand, Italian social security contributions were in absolute terms the most burdensome in Europe.³⁵

There had been a radical change in Italy's development model beginning in the mid-sixties. Up to then living standards had improved mostly as a result of continuous, accelerating growth in production and employment, i.e. from the bottom up. After that date, the goal had been to achieve the objective from the top down; the functioning of industry and the rest of the productive economy had begun to falter and continued to deteriorate in the seventies. This process of degradation gradually gave birth to the new model of the Italian economy, based entirely on the rapid expansion of the public sector, the inflationary financing of government debt and the erosion of the rights of private property.³⁶

³³ "Two months of economic activities in Italy", *Review*, XXXII, 5-6 (September-November 1978), pp. 371-72.

³⁴ M. Fratianni, "The Italian economy in 1978-79", *Review*, XXXIII, 1 (January 1979), p. 33.

³⁵ P. Savona, "The Italian industrial structure: Problems and prospects", *Review*, XXXIII, 1 (January 1979), pp. 49-52.

³⁶ Fratianni, "The Italian economy in 1978-79", p. 33.