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## *Capital and Labour in Italy 1929-1940 an Economic Interpretation\**

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During the interwar decades, the industrial nations of the western world underwent changes in economic structure which were partly determined by the unique events of the time and partly by long-run forces. An interpretation of these changes has been presented by Maurice Dobb, whose emphasis is mostly on the dynamics of the economy and its relation to economic theory.<sup>1</sup> Paul Sweezy treats this period in a similar vein but in broader perspective. He is concerned with the theory of capitalistic development and the role of social classes and the state in the general framework of monopoly capital and imperialism.<sup>2</sup>

It is well known that the works of these scholars lie within the tradition of Marxian thought, and this label has led many critics to accept or reject them according to their ideological preferences. In addition to the ideological bias, the origin of these disputes stems from the misunderstanding of the method and approach to economic problems adopted by Dobb and Sweezy.

No doubt, it is a hard task for economists to tackle subjects which involve terms such as « Capitalism » and « Fascism ». Given the risk of becoming

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Any opinions or conclusions of this paper, however, are mine.

<sup>1</sup> MAURICE DOBB, *Studies in the Development of Capitalism* (Rev. Ed.; New York: International Publisher, 1963), Ch. viii, pp. 320-386.

<sup>2</sup> PAUL SWEEZY, *The Theory of Capitalist Development* (New York: Monthly Review Press, 1968), Chs. xv, xviii, pp. 270-286, 329-347.

involved in disputes which appeal mostly to political scientists or sociologists, it is better to specify from the outset the purpose and the nature of the present inquiry. Neither Dobb in his *Studies on the Development of Capitalism*, nor Sweezy in *The Theory of Capitalistic Development*, devote particular attention to the economic consequences of the recession in Italy between 1929 and 1940. However, both agree that Fascist Italy, as well as Nazi Germany, had adopted economic policies well in tune with the need to overcome the economic crisis of 1929. They also agree that the economic experiences of the two countries, although unique in many respects, still lie within the border of the capitalist system. According to Dobb and Sweezy this system is based on the free contractual sale of labor to private entrepreneurs or owners of the means of production. They, in turn, pay wages to labor and sell the output in return for money. As a consequence of this process, the entrepreneurs freely dispose of the surplus, or profit, derived by the sale of commodities. The economic mechanism governing this system, however, received a serious blow during the depression. The main purpose of the present inquiry is to test, through empirical observation, the validity of this proposition with regard to the Italian experience.

The first part of this paper aims at analyzing industrial and financial concentration and state intervention during and after the crisis of 1929-1932. This will help us to deal with the second and more interesting point: the functioning of the economy and the relation between capital and labor. Since this latter point involves the problem of «Capitalism» and its survival, a few comments will clarify some of the basic ideas set forth by the interpretation of Dobb and Sweezy.

The knowledge of basic economic events is assumed, and the analysis does not cover the agricultural sector of the economy.<sup>3</sup>

#### I. INDUSTRIAL AND FINANCIAL CONCENTRATION. THE INTERVENTION OF THE STATE.

The concentration of industrial and financial capital was a basic feature of Western economies, during and after the world crisis of 1929-1932. Dobb observes that as a consequence of the crisis there was price rigidity, maintenance of profits, excess productive capacity, and mass unemployment. These features were new in comparison to those which characterized the process of concentration of the late 1880's. The classical mechanism of equilibrium with

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<sup>3</sup> For an evaluation of Fascist agrarian policy see: PIERLUIGI PROFUMIERI, *La « battaglia del grano »: costi e ricavi*, « Rivista di Storia dell'Agricoltura », XI (2), giugno 1971, pp. 153-172.

flexibility of prices and wages no longer functioned. However, in terms of real wages, employed laborers benefited from this situation. Further, given the extent of real capital and the related problem of a more rigid cost structure, producers tried to maintain demand at a high level and to find outlets for excess capacity. There were two solutions for this problem: 1) mass production with the introduction on a large scale of new technologies and new markets resulting in increased output per unit of labor, in the restoration of profits and mass consumption; and 2) expansion abroad aided by the state which entailed a greater utilization of existing capacity. The struggle for new and profitable outlets changed the role of the state which « from policeman turned into Father Christmas ».<sup>4</sup> This is essentially the basic feature of what Dobb calls Neo-Mercantilism. Let us examine to what extent the Italian experience conforms to Dobb's analysis.

It is helpful to recall that Italy, being a latecomer to industrialization, had adopted from the outset a policy of protectionism and state intervention in favor of large enterprises. There was no gradual process of evolution from a relatively competitive, fragmented industrial system, to a more concentrated one such as in England. Economic policies of the «laissez faire» type can be found only to a certain extent in the decade before World War I and in the « liberal » phase of Fascist economic policy between 1922 and 1929. With the depression of 1929 conditions were created for the big thrust toward concentration. In this regard we shall examine a few basic indicators, keeping in mind that they are arbitrary, and cannot be considered universally valid criteria. Concentration is used here to indicate three different processes: 1) technical concentration refers to the size of plants. This factor can induce firms to produce within the range where economies of scale take place; 2) economic concentration is taken to mean the agglomeration of firms and merging of share capital; 3) financial concentration refers to financial capital of credit institutions and of holding companies.<sup>5</sup> By the end of the thirties all three types of concentration were present in the Italian economy. At the same time state intervention in industry and the development of large combines came to play an increasing important role in the economy.

The ratio between the percentage of large factories (more than 500 employees) and the percentage of workers employed is an indication of technical concentration. Taking into consideration only the basic industrial sectors, we see the following for 1937-39: metallurgy — 6.5% of all plants employed 45.4% of all metallurgical workers; engineering 4.1% of all plants employed 55.9% of all workers in engineering; chemicals — 4.1% of all plants employed 21.2% of the total work force in chemicals; and textiles — 2.3%

<sup>4</sup> DOBB, *Studies*, p. 334.

<sup>5</sup> The first two definitions are taken by PAOLO SYLOS LABINI, *Oligopolio e Progresso Tecnico* (Torino: Einaudi, 1964), pp. 20, 21.

of all plants employed 32.8% of all the employees of the sector.<sup>6</sup> While the above figures offer an idea of labor force concentration they do not give an exact indication of the size of plants and fixed capital.<sup>7</sup> Although Table 1 is primarily concerned with economic concentration, it can also be used as a further indication of technical concentration. The picture given by Table 1 shows the degree of oligopolistic and monopolistic concentration in the Italian basic industrial structure by the end of the thirties. Further, the figures in Column 3 show the extent of state intervention in those industries that had developed first: iron-mines, shipbuilding, and iron-works.

Tentative steps toward coalition and merging of firms had been taken after 1926 — when the full effects of the revaluation of the Lira were being felt — but the tendency rapidly accelerated only after the crisis of 1929. The first concrete measure involving state intervention was in 1932, when the State passed a law by which *consortia* were made compulsory once 70% of the firms operating in the same field applied. The purpose of the law was to allow producers to check disruptive competition, falling prices, and bankruptcy. Consortia were formed in almost all industrial branches, but they were liquidated in 1935 following the recovery of industrial production. The most massive and penetrating example of state intervention was the public holding company I.R.I. (*Istituto per la Ricostruzione Industriale*, formed in 1933) which was entrusted with the management of state holdings in private industry. Today, there is no doubt that the original function of I.R.I. was that of a «hospital for sick firms».<sup>8</sup> The socialization of the losses gave the state control of the share capital of many private corporations. These companies were soon called STATE companies, although private share holders still held a fraction of the share capital.

To examine the problem of economic concentration it is necessary to look at our third basic indicator, the degree of financial concentration. There is much evidence that the reorganization and concentration of share and financial capital went along with state intervention. As far as share capital is concerned, it suffices to look at the large joint stock companies (defined as those with a share capital greater than 250 million lire). In 1932, at the peak of the crisis, their number was 0.17% of the total, and they owned 25.71% of total share capital of all companies. In 1938 they were 0.15% with 33.38% of total share capital.<sup>9</sup> Among these corporations (thirty on the whole, including financial institutions and I.R.I. firms) there were five large

<sup>6</sup> MINISTERO PER LA COSTITUENTE, *Rapporto della Commissione Economica*, vol. II: *Industria, I relazione* (Roma: Istituto Poligrafico dello Stato, 1948), p. 214.

<sup>7</sup> In order to accurately represent the real size of plants, it theoretically should happen that as dimensions increase (indicated by output expansion) so also should the number of laborers proportionally increase. In other words this means fixed factor proportion and would be implied by constant returns to scale.

<sup>8</sup> MINISTERO PER LA COSTITUENTE, *Rapporto, I relazione*, pp. 181-182.

<sup>9</sup> *Ibid.*, III *Appendice*, p. 249.

TABLE I

CONCENTRATION IN SELECTED INDUSTRIES IN 1937 AND LATER  
(When not specified the year is 1937)

Year	Productions	Number of trusts or firms  1	Percentage value of total production  2	Contribution of State Companies to Production. Percentage values of total production  3
	Iron mines	1	77	77
1938	Pig-iron, Iron, Steel	6	84	57
	Shipbuilding	3	91	80
1938	Cars	2	84	7
1938	Plastic and Synthetic Resins	3	60	—
	Caustic Soda	1	100	—
	Synthetic Ammonia	2	86	—
	Calcium Carbide	3	76	—
	Cement	6	57	5
	Electricity	8	77	29
	Gas	5	74	27
1942	Artificial Fibers	2	90	—
	Rubber	4	82	—
	Sugar	4	74	—

Source: MINISTERO PER LA COSTITUENTE, *Rapporto...*, pp. 217-218.

private companies which were practically monopolies. Montecatini completely controlled the production of rayon and three-quarters of that of chemical fertilisers; Snia-Viscosa controlled 60-65% of total artificial fiber production; F.I.A.T. controlled 83% of automobile production; Pirelli had a full monopoly on tires and 60-70% control over output of cables; Edison owned 45.5% of total electric power capacity.<sup>10</sup> Each of these corporations was able to control, through a system of holding companies, a large number of smaller firms more or less related to their principal product. The same network of holding companies provided the large corporations with money capital through retained earnings. This practice was becoming increasingly common and of sufficient magnitude to supply to industrial capital part of the money capital

<sup>10</sup> Ibid., *Rapporto, I relazione*, pp. 289-300.

required for investments.<sup>11</sup> It is possible to say that private industry was dominated by an oligarchy consisting of a few large complexes relatively independent from the banks.

The channels between industrial and financial capital had been severed by the crisis and the bank reform of 1933. As a result of the reform commercial banking was reshaped on the basis of short term credit. Although it is not possible here to discuss the connection between banks and industry prior to the recession, it is known that their relations were based on the German type investment bank. Before 1929 there was already a high concentration of financial capital in the three largest banks, which handled 33% of total deposits.<sup>12</sup> The original takeover of the share capital of these banks by I.R.I. is a peculiar Italian experience, which transferred the control of financial capital (the share capital and the deposits handled by the banks) to the state. Thus, state intervention reached considerable dimensions. When I.R.I., in 1933, took over the amount of discounts and loans from the Bank of Italy to the three largest banks, it paid over 7.5 billion lire, equal to 56% of the total circulation of the Central Bank.<sup>13</sup> However, this did not make I.R.I. the actual monopolist nor the manager of the commercial banking system. In a short time it gave the management of commercial banks back to the executives and kept only formal control. This operation allowed the large banks to stem the recession with minimum damage; they showed losses only in 1933 and by 1937 they were again distributing dividends.<sup>14</sup> The banking system became a channel by which the state could finance its deficits through the issue of treasury bills and government securities.

Evidence of concentration is thus far plentiful. If we compare, in 1938, the index of economic concentration with the indexes of technical concentration, we see that the former shows a higher concentration than the latter.<sup>15</sup> Yet, this phenomenon should not be attributed exclusively to the depression. Tendencies toward technical concentration were already evident before 1929 in chemicals and electricity, where economies of scale involved in new technologies led to the concentration of production in a few plants. The acceleration

<sup>11</sup> MINISTERO DELL'INDUSTRIA E COMMERCIO, *Istituto per la Ricostruzione Industriale - I.R.I.* (Torino: U.T.E.T., 1956), III, p. 166. Also on this subject see: PIERO GRIFONE, *Il Capitale Finanziario in Italia* (Roma: Einaudi, 1945), pp. 190-201.

<sup>12</sup> LEAGUE OF NATIONS, *Commercial Banks: 1929-34* (Geneva, 1935), pp. 66-71.

<sup>13</sup> MINISTERO PER LA COSTITUENTE, *Rapporto, I relazione*, p. 158.

<sup>14</sup> LEAGUE OF NATIONS, *Commercial Banks*, p. 69.

<sup>15</sup> By comparing  $\frac{\text{Percentage of large companies}}{\text{Percentage of total share capital}}$  and  $\frac{\text{Percentage of plants}}{\text{Percentage of total employees}}$  for each branch, we find that the first ratio is smaller than all the others. This means that the share capital was concentrated in a smaller number of companies than labor was in the number of plants. In 1938 the index of economic concentration was 0.0044. The index of technical concentration in metallurgy was 0.1431; in engineering 0.0733; in chemicals 0.193; in textiles 0.070.

of economic concentration should be attributed to the effects of the effort to preserve the value of share capital and profits from falling demand. This tendency can be seen in the percentages cited above for 1932 and 1938. What is interesting to note in relation to this process, is the persistence of small industrial firms (defined, in terms of employment, as those with more than 11 workers and less than 50). Their number in 1927 was 25,620 with 546,823 employees and in 1937 it was 23,800 with 543,438 employees. The interesting feature of this phenomenon is that small firms were still present particularly in engineering, chemicals, and textiles where the process of concentration had been more marked.<sup>16</sup>

The concentration and reorganization of industrial capital demanded new outlets, for full capacity production was needed to operate profitably but was not supported by current levels of demand. There is evidence of excess capacity in chemicals, metallurgy, engineering, and electricity.<sup>17</sup> According to Dobb and Sweezy mass production was the solution in the United States and England, whereas Germany turned to territorial expansion. For Italy, the outlet could have been in the domestic as well as in the foreign market. The first was characterized by a low level of consumption compared to the more industrialized nations, and the foreign market had already been tapped by the large Italian private companies through a policy of dumping. The solution, instead, was the Ethiopian and Spanish Wars and the policy of autarchy; three gifts from «Father Christmas» which were enough to overturn the business cycle. (See index of prices and output in Table II).

Whatever the political reasons for war and autarchy, they stimulated a stagnant economy. Though the initiative for territorial expansion came from the state, the political initiative and economic benefits for the business elite went hand in hand.<sup>18</sup> The Fascist government entered the wars of colonial acquisition too late and took only the remains. However, economic advantages still accrued to industry through increasing demand from the state.

There is evidence to document the action exerted by the state on the productive forces of the economy and the favourable response from private industry. I.R.I. in 1938 owned 16% of total Italian share capital and was involved in enterprises which increased national resources and production of military equipment.<sup>19</sup> (See again Table I, column 3). I.R.I.'s control of the economy exceeded its ownership in the share capital of corporation, since it

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<sup>16</sup> ISTITUTO CENTRALE DI STATISTICA, *Annuario Statistico Italiano 1934* (Rome: Istituto Poligrafico dello Stato), p. 58; MINISTERO PER LA COSTITUENTE, *Rapporto, I relazione*, p. 212. In order to compare the two census I have subtracted from the first the transportation, commerce, and fishing categories.

<sup>17</sup> CONFEDERAZIONE FASCISTA DEGLI INDUSTRIALI, *L'Industria dell'Italia Fascista* (Rome: U.S.I.L.A., 1939), pp. 211, 231, 256, 257, 304, 308.

<sup>18</sup> This should clarify and confirm what Sweezy says about anticipatory political initiative. SWEEZY, *The Theory*, Chs. xvii, xviii.

<sup>19</sup> MINISTERO DELL'INDUSTRIA E COMMERCIO, *Istituto*, pp. 52, 53, 56.

could control them while owning only a limited amount of shares. Further, the government in 1933 had assumed the right of licensing all new industrial construction in order to direct new investments toward national needs. This measure might have frightened private industry, but any such fear quickly vanished when *Confindustria*<sup>20</sup> was charged with giving its advice on the applications. The end result favored large private concerns which were able to secure licenses for large investments even when they were not willing to use them. The purpose was the elimination of potential competition from medium and small firms.<sup>21</sup>

## II. RETURNS TO CAPITAL AND LABOR.

The main purpose of this paper is to determine whether there were substantial changes in the economic relation between capital and labor following changes in the structure of the economy. This relation concerns the distribution of the product, and the analysis can proceed from different theoretical and methodological points. By choosing the classical Marxian formulation, we can use the ratio  $S/V$  where, in contemporary terminology,  $S$  stands for return to capital-entrepreneurship and  $V$  for return to labor, or wage-bill. Since  $S$  is the source of accumulation and expansion of capital which is crucial to the whole economy, its variations and the determinants of these variations, along with its uses, are of utmost importance for understanding whether the capitalist mode of production and distribution has been substantially altered.

In the absence of a complete and reliable study on income distribution in Italy in this period, one must rely on indirect inference. In Table II there are six major variables for the industrial sector: 1)  $P$  = index of wholesale prices;  $P_r$  for raw materials,  $P_f$  for finished goods; 2)  $Q$  = index of industrial output; 3)  $W$  = index of nominal hourly wage-rate; 4)  $L$  = index of labor hours input, which is also an index of employment; 5) ratio of total proceeds to the wage bill; 6) index of real wages; 7)  $I$  = index of gross investments in plant and equipment. Since these indexes show only relative changes over time, nothing can be said about the absolute values of these variables. Further, differences in aggregation and weights suggest caution in comparing the behaviour of these indexes. Yet, they can show the pattern of a cycle, since we are interested in changes of direction and not in the magnitude of these changes.<sup>22</sup>

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<sup>20</sup> National Association of Industrialists.

<sup>21</sup> MINISTERO PER LA COSTITUENTE, *Rapporto, I relazione*, p. 142.

<sup>22</sup> Extensive research on these variables is currently under way. It is hoped that additional data on production, prices and wages for singles industrial sectors will permit more definite conclusions about the fluctuations in income distribution.

Observing the dynamics of our indices we see that the drop of  $P_f$  (— 33%) was constant until 1934 and more or less of the same magnitude as that of  $Q$  which declined till 1932.  $L$ , on the other hand, registered a smaller decline (— 27.6%) from 1929 to 1932, and  $W$  dropped only 22.3%, but for a longer period: from 1929 to 1936. Thus we see that  $W$  and  $L$  declined less than  $P_f$  and  $Q$  for 1929-1932. If  $P_f \cdot Q$ , in absolute terms, indicates the value of production — or total revenue for producers — and  $W \cdot L$  the wage bill, one can say that the latter product, the return to labor (the denominator of the ratio in column 5, Table II), hampered total revenue in 1930 and 1931. This means that, *ceteris paribus*, the labor share of employed workers was impaired less than the returns to capital. A reversal of this tendency is already evident in 1932, and it becomes more marked thereafter.

One inherent limitation in this ratio is that there is only one component of prime costs in the denominator. If one knew to what extent  $P_r$  (the price index of raw materials, which declines more than  $P_f$  for 1929-32) affected prime cost, we would have better evidence for relative changes between labor and nonlabor income shares. In this case, an aggregate index including wage bill and raw material costs would show how prime — or variable — cost varied in relation to total proceeds, thus affecting overheads and profits (total proceeds equal  $P \cdot Q$  including overheads and profit margins).<sup>23</sup>

Further evidence of a cycle which favored employed laborers in the first phase, but nonlabor incomes in the second, can be found in the index of real wages (column 6, Table II). This index shows substantial improvement between 1929 and 1934, but substantial losses between 1934-39. A preliminary investigation on income distribution in the thirties suggests different phases for the two types of income.<sup>24</sup> In 1928, at the end of the liberal period of Fascist economic policy, the ratio between nonlabor and labor income ( $S/V$ ) in the industrial sector was 0.76. In 1936 it was 0.69 and in 1937 0.71. No other estimates are available but these figures point to a period in which nonlabor income declined relative to labor income. This situation changed around or before 1936.

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<sup>23</sup> Prime cost is used here according to Kalecky's definition which includes raw materials and wages. According to Kalecky's formula of price determination, and by assuming stable industrial composition (i.e. no change of the relative share of major industrial groups in the aggregate value of proceeds), the ratio of proceeds to prime cost can show changes in the degree of monopoly and in the relation between nonlabor and labor incomes. An attempt to construct a ratio according to Kalecky's formula is prevented by the lack of absolute values of prime cost. For a more extensive explanation of this argument see: MICHAEL KALECKY, *Theory of economic dynamics* (New York: Monthly Review Press, 1968), pp. 16-22.

<sup>24</sup> ACOSTINO DE VITA, *Il reddito nazionale dell'Italia*, «La vita economica italiana», XIV (2), giugno 1939, p. 62. Ed. by Istituto di Statistica dell'Università di Roma. The return to labor includes the income of artisans and the return to capital includes taxes.

## MAIN ECONOMIC INDICATORS

Years	P <sub>r</sub>	P <sub>f</sub>	Q	W	L	$\frac{P \cdot Q}{W \cdot L}$	Index of real wages	Index of gross investments in plants and equipment
	Price index of raw materials	Price index of finished industrial products	Index of industrial production	Index of hourly wage rate	Index of labor hours input			
	1 <sub>a</sub>	1 <sub>b</sub>	2	3	4	5	6	7
1929	100	100	100	100	100	100	100	100
1930	86.5	90.31	91.8	99.3	94.2	91.5	102.5	91.1
1931	74.6	78	77.5	91.6	83.5	79	104.8	74.2
1932	70.5	75.4	67	86.9	72.4	80.2	102	65.6
1933	60.7	69.1	73.7	83.5	75.1	81.2	104.1	68
1934	60.1	66.4	79.9	81.3	78.3	83.4	107.1	74.9
1935	68.8	72.6	93.7	78.3	81.2	107.1	101.5	96.1
1936	79.9	77.4	87.4	77.7	81	107.5	93.8	111.8
1937	93.9	89.3	99.5	80.6	91.7	120.2	89.5	119
1938	95.3	99.8	98.4	84.7	95.9	120.9	86.5	115
1939	100	102.8	112.7	93	99.1	125.7	91.1	130.2
1940	115.6	113.8	—	110.7	—	—	92.9	127

## Sources:

<sup>1</sup> ISTITUTO CENTRALE DI STATISTICA (I.S.T.A.T.), *Compendio Statistico Italiano* (Roma, Istituto Poligrafico dello Stato, 1935 and 1940), pp. 161 and 167.

<sup>2</sup> *Ibid.*, pp. 110 and 118.

<sup>3</sup> GIORGIO FÙÀ, ed., *Lo Sviluppo Economico in Italia* (Milano: F. Angeli, 1969), vol. III, p. 455.

<sup>4</sup> I.S.T.A.T., *Compendio Statistico Italiano* (Roma: Istituto Poligrafico dello Stato, 1935 and 1940), pp. 118 and 120.

<sup>5</sup> *Ibid.*, 1, 2, 3, 4.

<sup>6</sup> CESARE VANNUPELLI, *Occupazione e Salari dal 1861 al 1961*, in «L'Economia Italiana dal 1861 al 1961», ed. by Biblioteca di Economia e Storia (Milano: Giuffrè, 1961), p. 594.

<sup>7</sup> I.S.T.A.T., *Sommario di statistiche storiche dell'Italia: 1861-1966* (Roma: Istituto Poligrafico dello Stato), p. 147.

Even though the indicators do not show the amplitude of the cycle, they suggest two contrasting phases in the economic fluctuation of the thirties. In the first phase employed workers benefited in terms of real wages at the expense of capital and unemployed workers. This, however, did not mean that all capitalists were affected. In the second phase, private and public capital recovered through a larger volume of employment what it had temporarily lost between 1929 and 1933. The nominal wage-rate, the only variable to decline continuously for seven years, supports this conclusion. This was due to governmental action through Fascist corporations which had complete control over wages. These were made flexible downward, and a balance between returns to capital and labor was reestablished by the state in lieu of free market forces which had been upset by the crisis.

The restoration of surplus value was not devoted to socially beneficial uses, but rather to expenditures in military equipment and autarchic ventures. The system of social security and medical care developed after 1933 was a contribution to wage earners which could be classified among social uses of national income. However, the system was mainly paid for by labor and capital, with the state providing only a small proportion of the total sum. It is safe to say that these social benefits were less relevant than would appear at first sight, and most likely did not alter the ratio between labor and nonlabor incomes.

One could object that if the state dealt with wages in a way that preserved an equilibrium among the forces here considered, it also did the same with profits. In 1935 a maximum limit of 6% was set for dividends on joint stock companies. This measure, however, should not be misunderstood. The government clearly encouraged a policy of retained earnings in industry, so that industrial capital, above all the industrial oligarchy, was able to accumulate money capital. It might also be objected that industrial capital paid for those favors through higher taxes. Yet, from available information it is clear that government receipts from taxes on corporations and industrial profits were decreasing or constant for the period of the industrial revival following 1932.<sup>25</sup> Furthermore, corporations could easily get around these taxes by shifting them forward to consumers.

What has been said so far concerns industry as a whole, but what about monopolies and large concerns? Were they able to retain profit margins and to withstand the general decline in prices and demand? Unfortunately, we cannot compare single monopoly price and output movements with the general trend of industry because of inadequate data. However, from scattered information it is evident that large corporations were able to stem the tide of recession.

For an evaluation of their performance, the value of share capital rather than dividends should be considered. Of the five large joint stock companies mentioned earlier none devalued share capital during the recession. On the contrary, all of them showed in their annual reports favorable activity for the most critical year, 1932. Only F.I.A.T. registered a reduction in exports and prices and did not distribute dividends that year. All the others were able to distribute dividends and to withstand the general decline in prices and foreign competition. It is superfluous to mention that after 1932 all five reported very profitable business.<sup>26</sup>

This is much more significant when one considers that the total value of share capital of all joint stock companies declined from 1930 to 1935 (from

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<sup>25</sup> MARIO DE VERGOTTINI, *Le Statistiche Finanziarie* (Torino: U.T.E.T., 1968), pp. 584, 585, 587.

<sup>26</sup> ASSOCIAZIONE FRA LE SOCIETÀ ITALIANE PER AZIONI, *Business and Financial Report*, 1932 to 1934. Various issues.

52,280 million lire to 44,095 million) while the number of companies remained more or less constant.<sup>27</sup> Since the large private corporations did not devalue their share capital, it is obvious that the losses were suffered by medium and small companies and those large corporations taken over by I.R.I. Therefore, private monopolies, through control of the market and preferential treatment by the state secured a constant, if not increasing, portion of the diminishing value of total output.

If this is what occurred in terms of profits, what about more general benefits in terms of productivity gains and technological improvements? Here, one is also forced to rely on incomplete data. Suffice it to say that in chemicals and electricity there is evidence of technological advance, whereas an unfavorable evaluation has been given concerning the efficiency of the I.R.I. metallurgical industry.<sup>28</sup> As for engineering, with the exception of F.I.A.T., capital endowment was small compared to the more industrialized nations and productivity gains were limited. Thus, the picture is one of diversity. It is difficult to reach conclusions about efficiency and technological progress in an industry dominated by monopolies without research on individual firms.

A more interesting consideration concerning productivity improvements comes from the comparison of indices of output, employment, and investments in plants and equipment (columns 2, 4, 7 of Table II). An index of industrial output at any time greater than the indices of labor input and investments would be a clear indication of an increase in productivity. Yet, from 1935 to 1940 the index of investments always exceeds that of output and labor. There is no substantial evidence then of improvements in total productivity. Further, the index of investments includes expenditures made for replacement and upkeep of capital stock. This suggests that even though a part of  $I$  was reinvested, a portion of it was simply for the maintenance of existing positions.<sup>29</sup>

Again, this is the picture for the whole industrial sector and little can be said specifically about monopolies.<sup>30</sup> This analysis suggests that state control of industrial policy and encouragement of private monopolies had more effects upon restoration of profits, consolidation of share capital and financial interests, than on the innovative and entrepreneurial spirit.

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<sup>27</sup> MINISTERO PER LA COSTITUENTE, *Rapporto. III Appendice*, p. 255.

<sup>28</sup> *Ibid.*, *Rapporto, I relazione*, p. 234.

<sup>29</sup> GIORGIO FULÀ, ed., *Lo sviluppo economico in Italia* (Milano: F. Angeli, 1969) III, pp. 417, 449. This portion, according to one source, was very high and net investment was very low.

<sup>30</sup> Three of them, Edison, Snia, and FIAT reported new investments and productive improvements after 1936. ASSOCIAZIONE FRA LE SOCIETÀ ITALIANE PER AZIONI, *Business*, 1937 and 1938.

## CONCLUSION.

1. Industrial capital, which since the late 1870's was nurtured by state protectionism and a certain degree of concentration, achieved a high level of concentration after the depression of 1929. Changes in credit institutions represented a rationalization of the system by which commercial banks provided short term credit and money for working capital. Access to money capital for long term operations was preserved by large firms through a system of private financial holdings and retained earnings.

Private industry and its oligarchy were not damaged by state intervention and the implementation of state owned corporations. On the contrary, they found a working agreement by which the latter took on the burden of operating enterprises which were not always economically viable, whereas the former thrived and kept functioning according to criteria of profitability. The attempt to direct the production of state owned corporations toward the political directives of the regime did not lead to the formulation of a central plan with targets and constraints applicable also to private firms. The economic policy of the Fascist government was a patchwork which created confusion among the bureaucracy and I.R.I. firms, but left private corporations free from any burden.<sup>31</sup> Thus, one point is clear: private firms and above all monopolies continued the process of private accumulation. This happened in spite of the fact that after 1935 the state imposed its directives on the economy. The process was reinforced as the state socialized the private losses resulting from the market mechanism and accumulation of the twenties.

The industrial oligarchy, during the Fascist regime, was able to preserve and also to increase the returns to capital at the expense of medium and small firms and labor. Its position in the economy was strengthened in spite of and because of state intervention. As the firms taken over by the state were in bad financial and technological straits, they could not confer to the public operator the economic strength necessary to compete with the private sector. In strict economic terms it is therefore possible to see that in the thirties « the expanding economic functions of the state and the centralization of capital met in what might be described as the formal marriage between the state and the monopoly capital ».<sup>32</sup>

However, if one considers the situation and evolution of the relations between state and monopoly capital after World War II, it can be seen how changes in the thirties may have developed the seeds for the possible overthrow of the capitalist mode of production. The economic strengthening and market expansion of state owned firms (public corporations) in the fifties and

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<sup>31</sup> MINISTERO DELL'INDUSTRIA E COMMERCIO, *Istituto*, p. 45. Also, MINISTERO PER LA COSTITUENTE, *Rapporto, I relazione*, p. 234.

<sup>32</sup> SWEEZY, *The Theory*, p. 340.

sixties has led to what might be called a mongrel duopolistic system of industrial property. On one side, the state owns or controls key industries such as electricity, petro-chemicals, metallurgy, transportation, and a variety of light industries. On the other side, the descendants from the private industrial oligarchy of the Fascist regime have preserved a few monopolistic positions, such as the automobile industry, rubber and chemicals, but undoubtedly they have lost power in respect to the public operator.

Under these circumstances there may be forms of tacit agreements — live and let live — or conflicts of varying degrees which may lead to the capitulation of one contender. The instability of duopoly is here considerably increased by the addition of political factors. In the absence of a coordinated economic policy or planning (as it has been for the fifties and part of the sixties), the public operator was likely to behave according to criteria which do not differ much from those of the private operator.<sup>33</sup> Yet, when capital is divided between a private industrial oligarchy and a public operator which is economically efficient, then if difficulties arise, or political decisions prevail, the two groups may clash and the winner is likely to be the one which is backed by the state apparatus. This possible solution does not imply that the total appropriation of surplus value by the state will be necessarily devoted to social benefits for the mass of producers and people. But it would definitely represent a new historical process of accumulation and distribution and ultimately the basis for a new economic system.

2. Changes in the structure and functioning of the Italian economy between 1929 and 1940 also affected labor. Employed workers were not hurt by the depression. On the contrary, they benefited in real terms. Yet, unemployment fed the «industrial reserve army» which provided labor for the recovery. It is interesting to note that the decline in nominal wages coincided, until 1932, with increasing unemployment and then continued for four more years along with the slow absorption of labor. Thus, to a certain extent, there was still a mechanism of reequilibrium of the classical type, but not determined by market forces. Dobb seems to disregard this type of adjustment, probably because his observation is based on the United States and England. However, he too realizes that the state guaranteed certain equilibria.

In light of this observation one can see that even if the free contractual agreement between labor and capital was altered by the interference of Fascist corporations and government's decisions, in actuality the determination of wages was achieved in a way which did not upset the mechanism of private accumulation. This supports one conclusion reached by Sweezy, namely, that in time of recession «...the state is obliged to step in and substitute its own action for the law of demand and supply».<sup>34</sup> This shows that another basic

<sup>33</sup> GUIDO PETRILLI, *Lo Stato imprenditore* (Rocca S. Casciano, Cappelli, 1967), p. 45.

<sup>34</sup> SWEETZ, *The Theory*, p. 318.

feature of «Capitalism» was preserved, although it took a certain effort and the institutional setting had been changed.

What represented a departure from the classical mechanism was that as labor was reemployed (by the end of the thirties full employment had almost been reached) and nominal wage rates increased, real wages declined. One might have expected, again according to the classical mechanism, that as a situation of almost full employment approached, both nominal and real wages would rise, assuming that price increases would soon follow. Yet, this is the critical point which suggests that something basically new was introduced in the mechanism governing the relation between capital and labor. The novelty is to be found in the new role of the state and the development of monopolies. These new features belong to the category of qualitative changes, or changes in the structure of the economy which observation of quantitative variables might not always reveal.

The government did promote an inflationary spiral after 1935 through higher demand for finished goods and raw materials, and an expansionary monetary policy. It sought a higher portion of output more rapidly than available factors could offer. Private industries and monopolies certainly did not oppose such a policy which was profitable for them, and inflationary pressures were passed on to the consumer. Forced savings was the device used to pay the price of recovery and for the Ethiopian and Spanish Wars. The working class was forced to exchange almost full employment for lower real wages.

3. Along with a limited number of large concerns, we have observed the persistence of small firms in the same sectors where monopolies had developed. In any branch of industry, therefore, there can be a large number of small firms which do not compete with large ones. This fact suggests that the growth of big corporations does not lead necessarily to the elimination of small concerns. On the contrary, these may perform a function somewhat similar to that of the industrial reserve army of labor. In times of crisis, as the aggregate value of output diminished, large concerns may have been able to retain their absolute level of output at the expense of smaller firms, in the same way as employed laborers benefited at the expense of the unemployed laborers. Thus, medium and small firms provided a kind of elastic and subsidiary capacity during the business cycle with no substantial damage to the monopolistic concerns. The implications of this particular feature of the process of industrial development have not yet been fully explored, but economic theory should no longer disregard it.

4. If economic equilibrium of the type described above was reestablished, this does not mean that contradictory elements were eliminated. The foremost inconsistency of the pre-1929 system was the chaotic expansion of

capacity and output, the policy of dumping and increasing speculation within private industry since World War I, which led to the crash and to state intervention by necessity. Yet, the most patent contradiction of all, during the 1930's, was the waste of resources for uses which did not benefit the mass of people. By so doing the state perpetuated the traditional low level of private consumption which later constituted an obstacle to expansion of mass production and standardization of consumer goods.

5. A final comment is in order. Under the circumstances of those times, prevailing economic theory could no longer provide a valid explanation of the functioning or of the dynamics of the economy. Too many exogenous factors came into the picture and two economic entities established themselves as dominant forces: the state and the monopolies. As evidence from the present inquiry suggests, the temporary relative advantages accrued to labor, by causing a decline in returns to capital, brought about the seeds of a reaction. One was unemployment and occurred simultaneously with real gains for labor. Later, if the goal of full employment was to be pursued, an increase in output was the necessary factor. However, if all laborers wanted to preserve the same real portion of output, this could only be achieved by a substantial extraordinary increase in output per unit of labor, since a high portion of the product had to go to those striving for the restoration of surplus value: capital and the state.

Ever since gains in output per unit of labor have been achieved through industrialization, employed labor has produced more than what was needed for its own subsistence. If no economic system has been, or is able, to guarantee to labor the whole amount of its product, then, historically, a new mode of production and distribution may eventually be established which would return to labor, in the form of social benefits, the surplus which it yields. Since this in our case has not yet happened, the relation between surplus value and the wage bill is still the pivot on which economic analysis should gravitate for a better understanding of the mechanism of an economy where, in spite of and because of state intervention, returns to ownership of capital still exist.